

Moscow Talks Fail To Reverse Soviet Olympics Boycott

By John F. Burns
New York Times Service

MOSCOW — An international Olympic official met in Moscow on Saturday with the leading Soviet sports administrator, but appeared to have made little progress in reversing Moscow's decision to withdraw from the Olympic Games in Los Angeles this summer.

Three more Soviet allies, Czechoslovakia, Laos and Afghanistan, announced that they would not send teams to the Games, bringing to seven the number of nations joining Moscow.

[Games officials in Los Angeles said Saturday that China said it would definitely send a team, Reuters reported. A letter accepting an invitation to attend the games was handed to Charles Lee, an Olympic official in Beijing.]

[The Nicaraguan Olympic Committee confirmed Friday that the country would participate but said it would review the decision "if developments occur that merit it." The Associated Press reported from Managua.]

In Moscow, Mario Vázquez Rana of Mexico, who heads the Association of National Olympic Committees, said Marat V. Gramov, chairman of the Soviet National Olympic Committee, had been "very eager to listen" to the reasons advanced for Soviet participation in the two-hour meeting.

Mr. Vázquez said Mr. Gramov had not given any indication that Moscow was ready to reconsider.

Mr. Vázquez, whose visit was scheduled before the Soviet Union's decision to withdraw, arrived with messages from Juan Antonio Samaranch of Spain, who is president of the International Olympic Committee. Mr. Samaranch has said that he would like to see Konstantin U. Chernenko, the Soviet leader, before a meeting of his committee board in Lausanne, Switzerland, on Friday.

"I advanced thousands of reasons for Soviet participation in the Games," Mr. Vázquez said. "Mr. Gramov gave many reasons for Soviet nonparticipation."

Tass described the meeting as a "frank talk." It made no mention of Mr. Vázquez's efforts to win a reversal, but said Mr. Gramov had "set forth the motives" behind the Soviet decision.

After the Soviet Union announced its decision, Bulgaria and East Germany said they would not attend. On Friday, Vietnam and Mongolia followed suit.

Western diplomats believe that the Soviet decision was made by the Politburo on political grounds. Reports circulating in the diplomatic community say that a hard-line faction demanded the pullout as a rebuff to the Reagan administration and that pledges about the security of athletes, the issue given by the Soviet Union for withdrawing, are not likely to make much difference.

On Friday, Tass carried a commentary scoring a letter in which President Ronald Reagan assured Mr. Samaranch about the safety of athletes.

Soviet newspapers on Friday began to give front-page display to commentaries, readers' letters and news from abroad that supported the reasons for withdrawal.

Komsomolskaya Pravda, the Soviet youth newspaper, said that the Soviet Union's decision to withdraw was "a just and reasonable decision."

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Fighting Resumes In Beirut Battle Follows Children's March

The Associated Press

BEIRUT — At least nineteen persons were killed in weekend fighting in and around Beirut that began hours after hundreds of Lebanese children marched through the capital to appeal for peace. Mortar and rocket-propelled grenade exchanges persisted Sunday.

Sources close to Prime Minister Rashid Karami contended that the fighting was aimed at blocking the work of his newly formed cabinet, which is composed of Muslims and Christians.

Sources quoted by government radio said that Mr. Karami was determined that the continual violations of the cease-fire would not distract his government from reorganizing the Lebanese Army.

Informed sources cited by the state radio quoted Mr. Karami as saying: "The most important problem that needs to be dealt with is that of the army."

Mr. Karami, 62, had pledged earlier to reunite the army and define its role. The 37,000-member, U.S.-trained army has split along sectarian lines during the last eight months of the civil war. It is dominated by Christian officers.

Meanwhile, Lebanon's Druze Moslem leader, Walid Jumblatt, said in an interview published Sunday that the Lebanese must act quickly to solve their political differences or "Lebanon is over."

In southern Lebanon, attackers fired a rocket-propelled grenade at an Israeli patrol in the coastal city of Sidon, wounding Israeli soldiers, according to witnesses. An Israeli military spokesman said there were no injuries.

Police said 18 persons were killed and 70 wounded on Saturday in the worst outbreak of hostilities in a week. The fighting subsided at dawn Sunday, but resumed around noon when mortar fire hit the Christian suburb of Ain el-Rummaneh, killing one person and wounding two.

Children's March
Earlier, J. Michael Kennedy of the Los Angeles Times reported from Beirut:

The children who took part in Saturday's peace march did so in mostly Muslim West Beirut, walking down the main shopping street of Hamra.

Bystanders tossed rice on the children, who carried out a kind of macabre street theater. Young boys played the role of militiamen, dancing along with toy machine guns, and others carried large paper mache dolls.

The children originally tried to conduct their march on May 5 but were prevented by heavy shelling that battered much of West Beirut. Organizers of an adult peace march, also canceled by the fighting a week ago, said they had no plans for rescheduling the event.

At the end of their march, the children paused for a moment of silence and a prayer for peace. Only a few hours later, though, heavy artillery again began to reverberate through the area.

On Saturday, political analysts with ties to several of the factional leaders reported that a strong rift had already developed in Mr. Karami's cabinet, perhaps precipitating Saturday's outbreak of shelling.

Mr. Weinberger said, "We all have to do more — the United States, NATO, Japan, Korea, everyone" — to counter a Soviet military threat that he called "very real and growing." But he added, "How much more is obviously a matter of determination for each country."

"We don't engage in criticism," (Continued on Page 2, Col. 5)



PHILIPPINE RALLY — Imelda R. Marcos, the wife of President Ferdinand E. Marcos, campaigning with supporters in Manila. Filipinos vote in elections today. Page 4.

Vietnam Calls Cambodia Manageable Despite Growth of Resistance Forces

By William Branigin
Washington Post Service

HANOI — Vietnamese leaders acknowledge that resistance groups battling their troops in Cambodia have gained strength, but they insist that the military situation is still manageable.

In a series of news conferences in the past two weeks, senior Vietnamese government and military officials have shown uneasiness in discussing the five-year-old war in Cambodia, where 160,000 to 180,000 Vietnamese troops are battling three Cambodian guerrilla groups. The officials mentioned that problems remained but hinted that Vietnamese military activities could always be stepped up to deal with them.

"Of course problems are there," said General Hoang Van Thai, the vice minister of defense. "But they are not big problems because their forces are not very great."

Tran Phuong, a deputy prime minister in charge of economic affairs, conceded that "for a country that wants to rebuild, to have to send troops to another country affects the economy. Having the army stay abroad is a burden for the local economy."

He added, however, that "for our economy to feed 150,000 men is not a big burden, because army men live at a very low standard."

He indicated that the government could send in more troops if the resistance, especially the Communist Khmer Rouge guerrillas, "stage a comeback."

Mr. Phuong said "our army in Cambodia is just a tiny bit of the big armed forces in our country," estimated at more than one million.

On the other hand, Vietnam's foreign minister, Nguyen Co Thach told William Branigin, a visiting American professor and Fulbright scholar, that Hanoi would continue

its "annual partial withdrawal" of troops from Cambodia to avoid "getting bogged down forever" there. He said Vietnam would also avoid immediate and total withdrawal, which he said would allow the Khmer Rouge to return to power.

Although Professor Turley, "The coalition has its ups and downs. These resistance forces are like mushrooms after the rain. They pop up and then disappear."

Although dismissive of the resistance, the statement went further than Mr. Thach's previous remarks in acknowledging some growth.

In a news conference called mainly to discuss the 1954 battle against French colonial forces at Dien Bien Phu, whose 30th anniversary Vietnam celebrated May 7, General Thai dismissed questions about why Vietnamese forces had not captured the Angkor-based resistance group controlled by the

Asked whether the resistance was growing stronger, Mr. Thach

had claimed responsibility for the slaying, it was apparent that instructions to kill Mr. Chander had been issued from inside the Golden Temple, the holiest Sikh shrine and seat of the Sikh militant movement for greater political and religious autonomy in Punjab.

The Sikhs, a minority in India, are a majority in Punjab.

Mr. Chander, 58, became chief editor of the newspaper chain that publishes Punjab's largest-circulation Punjabi- and Urdu-language dailies after the assassination of his father in 1981.

Police reported that Hindu crowds in Jullundur set fire to a bank, a library, 15 Sikh-owned shops and 12 city buses over the weekend.

They said one rioter was killed when he was hit by a firecracker.

In Amritsar, police said they seized a truck carrying a large quantity of arms and ammunition near the Golden Temple, and a Sikh leader said he would burn himself to death unless "sinful happenings" inside the shrine cease.

Jivan Singh Ummamangal, an official in the Sikh's Akali Dal party, said he would set himself on fire in public if Sikh militants "do not stop for the sins committed inside the temple complex" by June 15. He said the Golden Temple had been turned into a sanctuary for smugglers and killers.

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CIA Said to Give \$1.4 Million to 2 Salvador Parties

By Philip Taubman
New York Times Service

WASHINGTON — The Central Intelligence Agency gave \$1.4 million to two political parties in El Salvador in an effort to prevent the election of Roberto d'Aubuisson to the presidency, according to a Reagan administration official.

The CIA gave \$960,000 to the Christian Democratic Party to support the candidacy of José Napoleón Duarte and \$437,000 to the National Conciliation Party for its candidate, Francisco José Guerrero, the official, who is familiar with CIA operations, said Friday.

As part of the effort to block the election of Mr. d'Aubuisson, the candidate of the rightist Nationalist Republican Alliance, the CIA also subsidized visits to El Salvador by European and Latin journalists and gave them derogatory information about Mr. d'Aubuisson, the official said. He said the journalists apparently were not aware of the CIA's role in their visit.

The Central Elections Council on Friday declared Mr. Duarte the winner of the May 6 runoff election against Mr. d'Aubuisson. He received 752,625 votes, or 53.6 percent; Mr. d'Aubuisson had 651,741 votes, or 46.4 percent.

Mr. Guerrero, who was viewed as a moderate conservative by the Reagan administration, finished third in the first round of presidential balloting in March and was not a candidate in the runoff election.

The Reagan administration, although acknowledging that the United States provided help to labor unions, business groups and El Salvador's election commission, has publicly denied taking sides in the election or giving aid directly to political parties or candidates.

Members of the Senate Select Committee on Intelligence said on Thursday that in 1983 the committee was told by the administration about CIA plans to support the

Larry M. Speakes, the White House spokesman, said Thursday that U.S. assistance to labor, business and other organizations that endorsed or worked for candidates was part of a policy to foster "democratic institutions" in friendly countries.

A CIA spokesman, George V. Lander, said Friday that the agency would not comment on reports that it had played a role in the election.

A spokesman at the U.S. Embassy in San Salvador, Donald Hamilton, said Friday that the United States had "contributed to the expenses" of three groups of foreign journalists who visited El Salvador and other Central American countries in the past eight months. It was unclear whether those groups were related to the journalists subsidized by the CIA.

Since it was established in 1947, the CIA has spent millions of dollars trying to influence the outcome of elections in several nations by covertly providing money and other assistance to parties and candidates friendly to the United States, according to former intelligence officials and past congressional investigations of the CIA.

The CIA's role in the Salvadoran election has become a focus of attention and criticism in Congress in recent days as lawmakers have disclosed information about the agency's activities. The leading critic has been Senator Jesse Helms, Republican of North Carolina, who in a speech to the Senate Tuesday denounced the CIA for meddling in the election.

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(Continued on Page 2, Col. 1)

Mary and Stanley Dryson Allen, in Sri Lanka.

Tamils Threaten to Kill Kidnapped U.S. Couple

Compiled by Our Staff From Dispatches
COLOMBO, Sri Lanka — Separatist Tamil guerrillas have threatened to kill an American couple kidnapped in Sri Lanka, unless their demands for a ransom and release of 20 imprisoned colleagues are met Monday.

The guerrillas told President J. R. Jayewardene in a letter Sunday that the deadline was due to expire and that the couple would die if he did not cooperate.

A guerrilla group called the People's Liberation Army seized Stanley Dryson Allen, 36, and his wife, Mary, 29, from their home in Jaffna district on Thursday. The press office of the Tamil secessionist group in Madras, India, said Sunday that the couple were "well treated just now."

The guerrillas demanded the release of 20 detainees held by Sri Lanka and a 50-million-rupee (\$2-million) ransom in gold. If the demands are not met by noon Monday, the Allens will be killed within six hours of each other, they said.

The guerrillas, who want a separate state for Sri Lanka's minority Tamils, asked for the prisoners and gold to be handed over to authorities in India's southern state of Tamil Nadu.

Parents of both Mr. and Mrs. Allen appealed Sunday from their homes in Akron, Ohio, for their children's lives to be spared.

"Like all young people they deserve a future. We ask those in whose hands they now are to free them," the two sets of parents said in a statement. It was released Sunday by the U.S. embassies in Colombo and New Delhi. The parents were not identified by name.

Mr. Jayewardene has said his government will not pay ransom for terrorists.

The Sri Lankan government has

(Continued on Page 2, Col. 2)

Japan Delays Arms Plan But U.S. Remains Silent

By Clyde Haberman
New York Times Service

TOKYO — Japan has conceded that it cannot meet its own timetable for strengthening its armed forces sufficiently to resist foreign attack.

The acknowledgment came last week, when the National Defense Council, an ad hoc body of Cabinet ministers headed by Prime Minister Yasuhiro Nakasone, approved a three-year delay in its military buildup, postponing until early 1991 the acquisition of weapons that were to have been in operation by 1988.

It was no surprise that Japan had fallen behind schedule, but until now the government had not taken formal notice of the fact. Since 1976 Japan has had fundamental guidelines specifying the weapons and troop strength needed to meet its target of "acquiring the ability to repulse limited small-scale foreign attacks."

The relatively slow pace of the military buildup has led to persistent U.S. criticism that Japan has enjoyed a "free ride" on defense, permitting it to concentrate on economic growth at U.S. expense.

But Defense Secretary Caspar W. Weinberger, on a stopover in Tokyo, said on Friday that Japan should determine its own military

goals. "We're not here to tell anybody how well they've done or how poorly they've done," he said.

It was the second consecutive day that a senior member of the U.S. administration visiting Tokyo declined to criticize Japan on issues that elicited attacks in the past.

On Thursday Vice President George Bush urged Japan to do more to make the yen more widely used in international transactions. His remarks, however, had none of the sting of denunciations made here in March by Treasury Secretary Donald T. Regan, who accused the Japanese of an "intolerable" lack of action on financial matters.

Some Japanese analysts suspected that the low-key posture had election-year overtones. It is widely believed here that President Ronald Reagan hopes his close relationship with Mr. Nakasone may blunt the political consequences of his foreign policy difficulties elsewhere in the world.

Mr. Weinberger said, "We all have to do more — the United States, NATO, Japan, Korea, everyone" — to counter a Soviet military threat that he called "very real and growing." But he added, "How much more is obviously a matter of determination for each country."

"We don't engage in criticism," (Continued on Page 2, Col. 5)

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leader was assisted by two aides from his limousine.

At the end of the one-hour meeting, the Spanish journalists said, Mr. Chernenko appeared to have trouble buttoning his coat. They said that aides helped him with the coat.

Since the Spanish journalists had not seen Mr. Chernenko before, it was difficult to determine whether their observations marked a decline in his condition

or whether they reflected the difficulties that have been evident in previous public appearances.

Western medical experts have said that Mr. Chernenko's hunched shoulders, uneasy breathing and occasional apparent difficulty in raising his arms appear to be the result of an advanced case of emphysema, a progressive lung condition.

Questions about Mr. Chernenko's health have been raised since he succeeded Yuri V. Andropov in February.

[A member of the Soviet Communist Party's Central Committee brushed off reports that Mr. Chernenko is in failing health, United Press International reported from Washington. "He is in good working condition and I think a bit younger than you president," said Georgi A. Arbatov on a CBS-TV news program. President Ronald Reagan is 73.]

King Juan Carlos and Konstantin U. Chernenko, third and fourth from right, with wives and officials at the Kremlin.

Chernenko Appears Frail at Meeting With Juan Carlos

By Serge Schmemmann
New York Times Service

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U.S. Debate on Salvador Raised Deeper Issue of Policy on Third World

By Leslie H. Gelb

New York Times Service

WASHINGTON — On the surface, the House of Representatives debate that led to approval of President Reagan's aid package for El Salvador was over a defined and practical issue: Should Congress tie the aid to performance on human rights by the Salvadoran government, and if so, how, or should the president be given the flexibility to do it his way?

It was not over whether Washington should provide military aid

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or whether communism should be stopped. Virtually all the House members agreed on that.

But as the legislators poured through the practical matter of whether to make the aid conditional or unconditional, it became clear that the debate was about something much deeper. It was about the nature of change in the Third World and the fundamental direction of U.S. foreign policy for dealing with it.

It was really a debate about how to avoid the ultimate choice in El Salvador — losing or intervening. Presidential supporters said the necessary resources without strings. Critics argued that without strings to bring about changes, the resources would be to no avail.

Not since the Vietnam War have Republicans and Democrats, and Democrats themselves, been so profoundly split on an international issue.

The Reagan administration chose to put the battleground for debating the larger policy issue on television Wednesday night, the night before the House vote.

Mr. Reagan called Central America a stage "for a bold attempt by the Soviet Union, Cuba and Nicaragua to install communism by force throughout the hemisphere." To him, those who opposed his aid bill were "isolationists," men oblivious to the nightmare of Communist governments on American borders as Europeans were to the threat of Hitler in the 1930s.

Democratic legislators such as Representative Michael D. Barnes of Maryland argued that Mr. Reagan did not understand that what was really going on in the region was not an East-West confrontation but an internal political and social upheaval. To them, the Reagan policies could lead only to a wider war, the strengthening of communism and direct U.S. military intervention.

Unstated but understood in the debate, for some, was that stopping the communist threat was so important that the president should be given the substantial resources and freedom of action.

Unstated but understood, for others, was the belief that in the end the Salvadoran government would either have to shape up or lose no matter what Washington did, and that if the government did not shape up, better to lose to the guerrillas than to escalate to U.S. military intervention.

A number of legislators on both sides privately acknowledged that these were their philosophical premises, but that it was risky politically to state them boldly and publicly.

To most of them, however, it is simply bad politics to advocate that in an extreme situation the United

States should either send in the troops or be prepared to lose.

Public opinion polls continue to indicate that the majority of Americans want neither Communist takeovers nor U.S. combat involvement. In that broad and potentially contradictory middle ground is where most politicians place themselves politically and philosophically. Most of all, the legislators were looking for a way to avoid having the choice come down to intervening or losing.

Thus, Thursday's exchanges on the House floor focused on the specifics of legislation rather than on philosophy or ultimate intent.

The House had three choices. One was to make all aid to El Salvador contingent on performance to be certified by Congress and the president. This was defeated by a 287-128 vote. The second was an amendment by the House Foreign Affairs Committee to give one-third of the aid immediately and unconditionally, but make the remainder dependent on performance and joint congressional-executive certification. The third, which prevailed 212-208, was to provide all the aid now and unconditionally.

Majority Leader Jim Wright, Democrat of Texas, summed up the main point for the administration and against his own boss, Speaker Thomas P. O'Neill Jr. of Massachusetts.

The key, Mr. Wright argued, was the election of José Napoleón Duarte as president of El Salvador, "a man whom everybody recognizes to be a man of honor and a man of courage," someone who has promised to undertake the changes and the negotiations demanded by the critics. To delay the aid in any way, he said, would hurt Mr. Duarte.

Mr. Barnes, who is also the chairman of the Foreign Affairs subcommittee on the Western Hemisphere, pointed out that the conditions attached to the committee were exactly what Mr. Duarte planned to do and that Congress' underlining those conditions would help the new Salvadoran president. But the votes were no longer there.

Fifty-six Democrats banded with almost all of the Republicans to make a majority. Of the 56, all except three were from the South and Southwest, almost precisely the lineup that supported President Richard M. Nixon in the last years of the Vietnam War.

The sounds of the Vietnam War rumbled throughout the debate. At one point, Jim Leach, Republican of Iowa and one of the eight Republicans to vote against the president, warned his colleagues, "To vote for aid without conditions, he argued, 'is to give a blank check to the Executive not unlike that given 20 years ago in the Gulf of Tonkin Resolution.'

That was the congressional resolution of 1964 that many in Congress came to believe gave the president the right to do whatever was necessary to stop the Vietnamese Communists, that led to U.S. bombing of Vietnam and then to U.S. coldest involvement.

But this speaker did not frighten a majority of Mr. Leach's colleagues, according to Mr. O'Neill at least, as much as Mr. Reagan's implicit warning that he would take his case to the American people and that those voting to deny immediate and unconditional aid to El Salvador would have to answer to the electorate for its possible loss.

CLA Said to Give \$1.4 Million To 2 Parties in El Salvador

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electoral process in El Salvador. The senators did not make clear whether they were told about direct payments to political parties or an attempt to block the election of Mr. d'Aubuisson.

According to the administration official who described the CIA role in detail on Friday, the intelligence agency spent a total of \$2.1 million both to buttress the electoral machinery and to prevent the election of Mr. d'Aubuisson.

The official said the effort to prevent his election was initiated by the administration out of concern that if he were elected, Congress would cut off military assistance to El Salvador. Mr. d'Aubuisson has been linked to death squads in El Salvador.

As part of the operation, the official said, the CIA secretly subsidized travel to El Salvador by 11 European and Latin journalists in March and 9 in May. While the journalists were in El Salvador, the official said, they were given negative information about Mr. d'Aubuisson.

The first group, about half a dozen European print journalists, visited in early October of last year. A group of European television jour-

nalists visited December 6 through 9. The final group, several Venezuelans and a Colombian, visited in the last weekend in February, according to Mr. Hamilton, the embassy spokesman in San Salvador.

"In none of the cases did we pay all the bills," he said. "We picked up the airfare, and they paid their hotel bills and the other expenses."

Mr. Hamilton said it was unusual for the U.S. government to pay even those expenses.

U.S. Couple Threatened

(Continued from Page 1)

said there is evidence that Mr. Allen, who was working on a U.S. Agency for International Development water project, and his wife were taken by boat to Tamil Nadu.

The mainstream Tamil nationalist group, the Tamil United Liberation Front, has appealed to the kidnappers to release the Allens.

The front has been negotiating with Sri Lanka for increased autonomy for the northern provinces, where Hindu Tamils, who comprise about 18 percent of the country's 15 million population, predominate. Buddhist Sinhalese comprise about 74 percent of Sri Lanka's people, and the two groups, divided not only by religion but by ethnic origin, have been rivals for more than 1,000 years.

However, the Foreign Ministry director general, David Kimche, said some privileges may be granted, such as the special white license plates usually reserved for diplomats' cars and exemptions from customs duties.

The Lebanese Forces operate primarily in the Mount Lebanon region in the center of the country



SANTIAGO DEMONSTRATION — Police disperse students during a protest called by opposition labor unions on the first anniversary of the May 11 protest against the rule of President Augusto Pinochet of Chile.

Police said an 18-year-old died after being shot in the head during the disturbances, and seven other persons, including a policeman, were shot as youths blocked roads. Newspapers reported 11 persons had been shot.

Guerrillas Who Took Hostages Leave El Salvador

Compiled by Our Staff From Dispatches

SAN SALVADOR — Five left-wing guerrillas who seized 73 hostages in a thwarted robbery and held them for nine hours have fled to Mexico after receiving safe-conduct passes out of the country.

The guerrillas tried to rob a grocery store in a southern district of San Salvador Friday night, but were foiled when police arrived. They left the country Saturday.

It was the first time in nearly four years that guerrillas had taken hostages in San Salvador. El Salvador's largest leftist rebel group, the Popular Liberation Forces, denied Sunday that its forces were responsible for the raid. The five rebels said they were members of the Clara Elizabeth Ramirez Metropolitan Front, a faction that broke from the Popular Liberation Forces.

"None of our guerrilla units participated in those actions," said a spokesman for the FPL in a broadcast on the clandestine Radio Farabundo Martí.

After a brief gun battle, the guerrillas fled back into the building and forced 20 store employees and 52 shoppers to lie face down on the floor of a back room while negotiations began with police.

The guerrillas later seized one of two Red Cross volunteers sent in to negotiate.

In a phone conversation with The Associated Press, a guerrilla in the store who identified himself only as "the spokesman" said the rebels had decided to rob the store because they needed money.

"Our lack of means forced us into this situation," he said. "We did not expect this kind of development."

After being given safe-conduct passes, the five guerrillas — four men and a woman — emerged with their heads wrapped in towels to prevent identification. They were driven to El Salvador's airport, 30 miles (48 kilometers) south of the capital, accompanied by officials of the International Red Cross and the Mexican Embassy.

They then left for Mexico on a TACA airlines flight. There were no reports of injuries other than minor burns from a canister of tear gas reportedly thrown into the building by police.

As the guerrillas arrived at Mexico City's airport, about 40 plainclothes security agents surrounded the plane. The rebels, the last passengers to leave the plane, disembarked with their faces still concealed by towels.

A Mexican security official, who asked not to be named, identified the five as Alfredo Gómez, Estela Ramírez, Luis L. Rendón, Antonio Gavido and Eduardo Rivas Alfaro, ages 18 to 23.

In 1979 and 1980, guerrillas seized several government ministries, foreign embassies and political party headquarters, demanding the release of political prisoners.

Separately, army officials and insurgent leaders said Friday that guerrillas and the army have begun exchanging prisoners.

The first officer to be released under the exchange was Colonel Francisco Adolfo Castillo, who served as El Salvador's deputy defense minister at the time he was taken prisoner 20 months ago.

The sources said he was released in exchange for seven rebel leaders under a deal worked out between Defense Minister Carlos Enguino Vides Casanova, his chief of staff Adolfo Blandón and Rubén Zamora, a top official of the Farabundo Martí National Liberation Front, of which the FPL is part.

Colonel Castillo's release was preceded by exchanges of prisoners of less senior rank and would be followed by further swaps, the sources said. They gave no numbers.

(AP, Reuters, UPI)

Lebanon's Rightist Christian Militia Establishing Mission in Jerusalem

By Edoardo F. Tatro

The Associated Press

JERUSALEM — In this city where only two countries have embassies, the Christian Lebanese Forces militia is unfurling the flag of Lebanon from an eighth-floor window facing Israel's Knesset.

The establishment of a Lebanese Forces "information office" is an open act of defiance of President Amin Gemayel and his government's recent tilt toward Syria.

It is also concrete evidence that Israel intends to continue open ties with its long-time ally in the Christian heartland north of Beirut, despite Lebanon's abrogation of its 1983 accord with Israel.

Israel has maintained a liaison office in the Christian-run area since its invasion of Lebanon in June 1982. Syria is currently holding three employees of the office detained by Syrian troops earlier this month. Israeli officials said they were on a private pleasure trip when they strayed into an area held by the Syrian Army, but Syria said they were on a spying mission.

The formal opening of the Lebanese Forces' office in Jerusalem is scheduled for May 17, the first anniversary of the accord that laid down the framework for an Israeli troop withdrawal from southern Lebanon. Israeli officials have indicated that they planned to attend the ceremony.

The opening "is an affirmation of our independence," Pierre Yazbek, the head of the office, said.

Although spawned by the Phalangist Party, the young militiamen of the Lebanese Forces chafed under what they saw as the moribund leadership of aging Maronite Christian warlords like Pierre Gemayel, 79, the party's founder and father of Lebanon's president.

The militia's commander, Fadi Frem, whose wife is Amin Gemayel's niece, denounced the president's abrogation of the May 17 agreement with Israel in a series of speeches that transcended his previous role as strictly a military man.

"The abrogation was an illegitimate act because it was done under Syrian pressure," Mr. Yazbek said.

Mr. Yazbek's desk is stacked with books of Jewish history. He spends 90 minutes a day studying Hebrew with a tutor. For occasions requiring respect of the Jewish religion, the 32-year-old Maronite Catholic has an embroidered velvet kippa, the skullcap worn by Jewish men.

Israeli officials are quick to point out that the Lebanese Forces' office will not be accorded the full diplomatic status of an embassy, since sovereign nations do not have diplomatic relations with militias.

However, the Foreign Ministry director general, David Kimche, said some privileges may be granted, such as the special white license plates usually reserved for diplomats' cars and exemptions from customs duties.

The Lebanese Forces operate primarily in the Mount Lebanon region in the center of the country

where the Maronite Catholic community is concentrated. They have received some weapons from Israel in the past decade but have remained apart from the Israeli-created militia of the late Major Saad Haddad. Major Haddad's militia, now renamed the South Lebanese Army, operates in south Lebanon.

The Lebanese Forces' five-room office is to have a staff of six or seven, according to Mr. Yazbek. Two shiny metal flagpoles have been installed outside for the Lebanese national flag and the banner of the Lebanese Forces with its distinctive geometric cedar tree.

Mr. Yazbek said discussions were under way for trade between Israel and the area controlled by the Lebanese Forces. Cultural exchange programs, including university scholarships, are also on the agenda.

Only two nations, Costa Rica and El Salvador, have embassies in Jerusalem, which Israel claims as its capital despite the Arab outcry over the annexation of East Jerusalem which was captured from Jordan in the 1967 war. Egypt, the only Arab country to make peace with Israel, and other nations keep their embassies in Tel Aviv.

Asked if he was afraid of reprisals, Mr. Yazbek said, "I'm not going to say I haven't thought about it. But there are millions of Lebanese who are targets every day, so what's the difference?"

Olympic Aide Meets With Soviet Official

(Continued from Page 1)

youth newspaper, published an article by Vladimir Vasin, a diving coach and 1972 Olympic champion, who said anti-Soviet groups in the United States planned to kill Soviet competitors.

Sovietskaya Rossiya, another Moscow daily, said an unidentified anti-Cuban group in Los Angeles planned "to take revenge for the South Korean airliner" that was shot down by the Soviet Union in September with the loss of 269 lives.

Olga Richterova, a teen-ager who won the recent overall title in the women's world gymnastics competition, said on television, in what appeared to be a rehearsed appearance, that Soviet athletes had been receiving letters from the United States threatening them if they went to Los Angeles.

"All this is happening with the tacit assent of Reagan, who has the power to cut off this anti-Soviet campaign," she said.

Secretary of State George P. Shultz said Friday that the decision not to attend the Games was part of an overall Soviet plan to put relations with the United States "in a sort of deep freeze."

Addressing the American Society of Newspaper Editors convention in Washington, Mr. Shultz said the justifications for staying away were not credible because "tremendous efforts have been made and continue to be made by the United States to insure the security for the Olympics and a warm welcome for the athletes."

"Right now," he said, "we see the Soviet Union engaged in a tactic of negotiation that involves withdrawal, that involves a kind of scare campaign and that involves a sort of deep freeze. We will not be intimidated."

Nevertheless, Vietnam believes its diplomacy in the region is paying off. Western diplomats in Hanoi said, Western diplomats in Hanoi said, Vietnam believes the perception stems largely from an Indonesian initiative in recent months to promote a political settlement in Cambodia.

According to Western diplomatic and academic sources, the Vietnamese leadership believes the Indonesian moves vindicate Hanoi's efforts to split the resistance coalition of the South Vietnamese National Liberation Front and the noncommunist Association of Southeast Asian Nations by isolating the main guerrilla group, the Khmer Rouge, and the main ASEAN hard-liner, Thailand.

The Khmer National Liberation Front put up an unexpectedly strong defense and even counterattacked the Vietnamese, who threw Cambodian forces of the Phnom Penh government into the battle with poor results and later withdrew across the lake. Western diplomats in Bangkok said.

The operation seems to have given the Khmer National Liberation Front a "psychological victory," a senior diplomat said. "The whole thing is consistent with what you might expect of poorly motivated soldiers going through the motions of an attack."

Tug-of-War Ends Tragically

The Associated Press

LENZBURG, Switzerland — An attempt by 880 people to set a record for the tug-of-war ended in chaos and injury Saturday when a nylon rope snapped and contracted, injuring at least 24 persons including three who lost fingers and one who lost a hand, police said.

But military spending has not been adequate to meet goals defined both in the 1976 guidelines and in pledges by Japan's last two prime ministers to protect sea lanes up to 1,000 nautical miles from its shores.

The 1976 program was to have been put into effect between April

Japan Delays Arms Plan

(Continued from Page 1)

1983 and March 1988, but the government fell behind from the start. By now, 40 percent of the weapons purchases were to have been made, but the actual figure has been only 21 percent.

In some areas, equipment acquisition has lagged seriously. The Japanese Air Force was to receive 27 sets of short-range surface-to-air missiles over the five years, and should by now have had 11 or 12. Instead, it has only four.

This week's government action essentially took the five-year program and postponed it to cover April 1, 1986 to March 31, 1991, a delay of three years. Yukio Kihara, director of the Japanese Defense Agency, said this plan would be put into effect "completely."

Two explosions in Florence's Pitti Palace Museum, apparently caused by a gas leak, ripped through the ground floor Saturday, injuring at least 10 persons, police said. No paintings in the 15-century building were damaged. (AP)

An earthquake along Yugoslavia's Adriatic coast on Sunday triggered landslides in which at least one person was killed, the official media reported. The tremor measured 5.5 on the open-ended Richter scale. The only victim immediately reported was a 60-year-old woman who was killed when her car was hit by falling rocks, it said. (Reuters)

Soviet police have been stationed at the Moscow home of Irina Kristi, who told Western reporters that the Nobel Prize-winning dissident Andrei D. Sakharov, had gone on a hunger strike and that his wife was under investigation for anti-Soviet slander, a witness said Saturday. (AP)

A bomb blast in South Africa extensively damaged two government offices in a high-rise office building in central Durban on Saturday, police said. There were no casualties and no one claimed responsibility. (UPI)

David Kitson, 65, a citizen of South Africa and Britain, was released from jail in Pretoria on Friday after serving most of a 20-year sentence for sabotage and promoting the aims of communism. Prison authorities said Mr. Kitson was released a few months early for good behavior. (Reuters)

WORLD BRIEFS

Israel Exhumes Bodies of 2 Hijackers

JERUSALEM (WP) — The bodies of two Palestinian men who were among the four Arabs who hijacked an Israeli civilian bus last month have been exhumed for autopsies, Israeli newspapers reported Sunday.

The exhumations were ordered by an inquiry commission appointed by Defense Minister Moshe Arens to determine if the two hijackers were killed after being captured by Israeli security forces. The bodies were buried in the Israeli-occupied Gaza Strip shortly after an Israeli commando team freed the bus passengers April 15. There was no official government comment on the exhumations.

The official army account is that two hijackers were killed in the assault and that the other two died while being taken to a hospital. That account was called into question by a photograph showing an apparently uninjured man who is believed to have been one of the hijackers in the custody of two civilian Israeli security guards.

British Deputy Quits Post in Scandal

LONDON (AP) — A member of Parliament who served as the defense minister's parliamentary private secretary resigned Saturday after his arrest at a London nightclub that features male strippers, the Sunday Telegraph reported.

It said that Dr. Keith Hampson, 40, Conservative MP for Leeds, who had been Defense Minister Michael Heseltine's parliamentary secretary since June, resigned to avoid causing embarrassment to Mr. Heseltine and the government.

Scotland Yard confirmed that a man was arrested at the Gay Theater in London's Soho district May 3 "for alleged indecent assault on a male." A Scotland Yard statement said the man was released pending a report to government lawyers and no charges were lodged. "He has not been charged; therefore, we cannot confirm or deny his name," the statement said.

Hu Asserts North Wants United Korea

BEIJING (AP) — Hu Yaobang, the leader of the Chinese Communist Party, said in an interview published Sunday that President Kim Il Sung of North Korea repeatedly told him in 10 hours of talks that he wanted the peaceful reunification of the Korean peninsula.

Mr. Hu's remarks to the Xinhua news agency, reprinted in all major newspapers, came two days after he and a Politburo member, Yang Shangkun, completed a weeklong tour of North Korea.

Diplomats in Beijing said the trip was aimed at calming North Korea about China's contacts with U.S.-backed South Korea. It also appeared aimed at reassuring Pyongyang that China supports its proposal for peaceful reunification, under which North and South would keep their existing political and social structures and would each pledge not to invade the other.

Colombia Raids 5 Cocaine Facilities

SANTA ROSALIA, Colombia (UPI) — Narcotics agents, pressing a campaign against Colombia's drug industry, destroyed five large cocaine-processing laboratories and arrested more than 200 people.

The National Police operation on Saturday was one of the largest carried out since President Belisario Betancur pledged to crack down on the drug trade after Justice Minister Rodrigo Lara Bonilla was assassinated April 30. Mr. Lara Bonilla had embarked on a major drive against cocaine trafficking and had received death threats.

Two of the processing facilities found Saturday were located in a camp on a hog ranch near Santa Rosalia, 300 miles (480 kilometers) east of Bogotá. It was believed that the facilities were producing at least 1,100 pounds (500 kilograms) of pure cocaine a day, about 10 percent of the estimated daily output in Colombia. About 100 people were arrested. In the department of Meta, agents found and destroyed three cocaine laboratories and arrested at least 100 persons, officials said.

U.S. Plans Honduras Exercises Till '88

WASHINGTON (WP) — The United States plans to conduct military exercises in Honduras through 1988 and to build facilities in the country to support the possible deployment of U.S. forces in the region, according to a Pentagon report sent to Congress.

The 20-page report from William Howard Taft 4th, a deputy defense secretary, said that some proposed military construction in Honduras was intended to support U.S. forces that could be sent there under the Rio Treaty, which calls for the United States to assist in the defense of other countries in the Western Hemisphere.

A proposed \$1.5-million storage site for air munitions would be useful "in the event the U.S. must deploy tactical aircraft to Honduras in support of a decision to provide military assistance as outlined in the Rio Treaty," the report says. Another \$2.9-million storage site "would significantly reduce the time required for the U.S. to provide military assistance as necessary."

Kuwaiti Tanker Hit by Missile in Gulf

BAHRAIN (Reuters) — A Kuwaiti tanker, passing through the Gulf on its way from Kuwait to Britain with more than 76,000 metric tons of fuel oil aboard, was hit Sunday by a missile fired from a plane, its owners said.

Abdul-Fattah al-Badr, chairman of the Kuwaiti oil tanker company that owns the tanker, the Umm Qasab, said the plane was "unidentified." Shipping sources in the Gulf said they assumed an Iraqi fighter was responsible. Iraq made no mention of the incident in its regular evening military communiqué issued in Baghdad.

Mr. Badr said no one had been injured in the attack and there had been no explosion or fire. Damage was confined to the ship's central tank and no oil was lost. It was the third Arab oil tanker attacked in the Gulf, apparently by Iraqi planes, in less than three weeks.

Bush, in India, Assails Soviet Policy

NEW DELHI (AP) — Vice President George Bush has begun a three-day mission to improve ties with India, and declared that the Soviet intervention in Afghanistan has upset the military balance in the region and created the world's biggest refugee problem.

"In our view, the most destabilizing factor to emerge in the region in recent years has been the brutal Soviet invasion and continuing war against Afghanistan," Mr. Bush said Saturday at a banquet in his honor at the Presidential Palace. The presence of more than 100,000 Soviet troops in that country, he said, "has fundamentally altered the strategic balance in the region and created the world's largest refugee population" — 3.5 million people, many of them in Pakistan. The Russians entered Afghanistan in December 1979.

India, a friend of the Soviet Union, has refrained from publicly condemning the Soviet policy in Afghanistan and has recognized the Soviet-backed government in Kabul. Mr. Bush said he looked forward to discussing the Afghanistan problem and other foreign policy differences with Prime Minister Indira Gandhi, who attended the banquet.

U.S. Honors Dead in Berlin Blockade

BERLIN (AP) — Interior Secretary William P. Clark of the United States, in ceremonies marking the end of the Soviet blockade of Berlin 35 years ago, has honored the U.S. and British airmen killed during the Berlin airlift.

Mr. Clark and the West Berlin mayor, Eberhard Diepgen, laid a wreath Saturday at a memorial at Tempelhof Airport in memory of the 31 American and 41 British airmen and six German helpers who died in air and ground accidents during the airlift, which brought supplies to the city during the 11-month blockade.

The Soviet Union cut off land access to Berlin, 110 miles (178 kilometers) inside Communist territory, on June 11, 1948, trying to force the Western allies from the city. The blockade, which violated wartime agreements, was lifted on May 12, 1949.

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AMERICAN TOPICS



Lotto ticket buyers line up at an outlet in Manhattan.

Record Lotto Attracts
Players in New York...

Record sales of New York State Lotto tickets have pushed the jackpot to \$22.1 million, the biggest in North American history.

That figure was reached on Saturday, after players, learning that the Friday jackpot figure was \$18.5 million, rushed to buy tickets, said the lottery director, John Quinn.

Players lined up Friday to buy tickets at the rate of 17,000 a minute, or about 1 million an hour, for most of the day. Sales were near that level Saturday before the 8 P.M. buying deadline, Mr. Quinn said.

There were four winners, officials said Sunday, but their names will not be known until they claim their prizes. They will share \$5,525,000 in 21 annual installments of \$263,095, less a 30-percent tax deduction.

The previous Lotto record was \$9.9 million for the drawing of March 17, which a Queens man won. The jackpot grew to its size because no one had picked the winning six-number combination in the previous three drawings.

There are about seven million possible six-number combinations of the 44 numbers on a Lotto card.

The chances of winning a share of the jackpot are 1 in 3.5 million. "You'd have a better chance of getting hit by lightning," said a lottery spokesman, Bill Knowlton. "That's about 1 in 2 million."

...and Tax Gamble
Sours for Investors

Every spring, Americans wrestling with the Internal Revenue Service seek new ways to save some of their money. Some can invest in minor tax shelters such as Individual Retirement Accounts. Larger investors can buy into companies recording major losses, and can write off almost all their taxes.

The catch is that the losses can suddenly become real. Several prominent Americans have found this out through the case of Lion Capital Associates, two tax partnerships that were set up to trade in government securities and other debt issues.

Among the investors were Alexander M. Haig Jr., the former secretary of state, who invested \$50,000; Arthur B. Laffer, the economist and political theorist who put in \$25,000; and Avery Corman, author of the book *Kramer vs. Kramer*, who contributed \$175,000.

Now, both Lion and Blackburn have filed for protection under the federal bankruptcy laws, leaving their distinguished backers with a great deal of liability.

The partnerships' strategy is known as a "straddle," which seeks to produce short-term losses while pushing gains into later years, when tax rates might be more favorable to the successful investor.

This is done by simultaneously making short- and long-term investments in the same or similar securities. As interest rates change, one position rises in value, while the other declines. At the end of the year, the side that shows a loss is sold, while the profitable half is carried into the following year. For tax purposes, the loss is deductible from gross income.

But, a lawyer for the companies said, both Lion and Blackburn began recording substantial trading losses beginning in January.

"I've made a lot of mistakes in my life," Mr. Laffer said. "This is certainly one."

The only hope for the investors is that provided by the certainty of many costly lawsuits.

A Jacketless Carter
Is Banned in Boston

Former President Jimmy Carter was turned away from the dining room of the Copley Plaza hotel in Boston recently because he showed up for dinner in a cardigan sweater, the Boston Herald reported.

The newspaper said that Mr. Carter was "really rather put out." After he was turned away,

the Secret Service went into the dining room and told the maître d'hôtel who Mr. Carter was. "All the more reason he should wear a jacket," the paper quoted the maître as saying.

A New Book Offers
Trivia on Presidents

Dwight D. Eisenhower had a pilot's license, Abraham Lincoln had a saloon license and Woodrow Wilson had a Ph.D. Each of them was the only president with such qualifications.

This information is contained in a new election-year book entitled "The Presidents: Tidbits and Trivia." Written by Sid Frank and Arden Davis Melick, the book also reports that Grover Cleveland had faced a paternity suit and instructed his aides to "tell the truth."

John Quincy Adams liked to bathe made in the Potomac. And Warren G. Harding, the first president to enjoin Americans: "Ask not what your country can do for you; ask what you can do for your country."

New Poll Finds Drop
In Public Alienation

According to a recent Louis Harris poll, Americans are feeling less "alienated and powerless." The number of respondents who agreed with the statement, "What you think doesn't count much anymore" declined from 62 to 57 percent in the past year, while those who believe that "the rich get richer and the poor get poorer" has dropped from 79 to 74 percent.

The respondents who believe that "the people running the country don't really care what happens to you" are also fewer in number. Last year, they were 57 percent. This year they are only 48 percent.

Failing Kindergarten:
A Minneapolis Test

Educators are watching a trial program in Minneapolis that requires children of kindergarten age to take aptitude tests before they enter first grade. The children are asked to identify shapes, recognize coin values and deal with numbers up to 31.

Eleven percent of them did not make it, and will have to attend summer school in order to try again in the fall. The goal of the program is to detect and head off later failures. But some parents are upset by the reaction of children who are told they must stay in kindergarten.

Everett Beats Seattle
In Battle for a Base

In what has become known as the battle of Puget Sound, Everett, Washington, has beaten out larger Seattle as the site of a new Navy base.

Everett, a once-thriving sawmill town, now has an unemployment rate of more than 10 percent, and town officials are looking forward to an influx of jobs and money because of the base.

The city of 54,413 will be home port to as many as 16 vessels, 10,000 sailors and 8,000 dependents. Local officials estimate that as many as 18,000 new jobs may be created by the new base.

U.S. Accuses Detroit
Of Spoiling Free Food

The federal government says Detroit owes it \$418,000 for losing or letting spoil 284 tons of food intended for the poor.

Nearly 205 tons of surplus butter, cheese, frozen turkeys and other food spoiled in city warehouses last year, the Agriculture Department says, and a city audit could not account for another 79 tons of food.

Federal officials blame Detroit for ordering too much food and not providing adequate warehousing. But Mayor Coleman Young says Washington is partly to blame because it allowed the city to give the food to soup kitchens but not to needy individuals and families.

Final Arguments Made
Before World Court in
U.S.-Canada Sea Dispute

By John Vinocur
New York Times Service

THE HAGUE — A five-judge panel of the International Court of Justice has heard final arguments in the dispute between the United States and Canada about their maritime boundary in the Gulf of Maine.

The area of the Atlantic Ocean in dispute includes the rich Georges Bank fishing zone.

The panel will now deliberate on thousands of pages of testimony going back to November 1981, when the two countries agreed to submit the case to the World Court.

A decision is expected in August. By mutual agreement, it will be binding.

In a closing statement, Judge Robert Ago of Italy, the panel's president, praised both countries Saturday for "the serene and cordial" way they had approached the case.

Work on the dispute had been suspended by the court while its full contingent of 15 judges heard Nicaragua's request for a restraining order to stop U.S.-supported military activities against the Nicaraguans.

The Gulf of Maine case is expected to set important legal precedents because the number of disputed maritime boundaries has grown in recent years with the general acceptance of 200-mile (320-kilometer) fishing zones.

At issue is a 30,000-square-mile area of the Atlantic in which it is believed there may be oil and natural gas, although drilling attempts so far have failed. The U.S. boundary proposal would give it total jurisdiction over Georges Bank.

The United States claims the area was developed in the 19th century by New England fishermen, who fished in it exclusively until the 1950s, when fleets from other countries joined them.

Canada is asking for half of the disputed area. Its lawyers say some parts of Nova Scotia have a vital economic dependence on the eastern segment of Georges Bank.

The Canadians contend that the United States does not have any economic dependence on that part of the area, and that its fishing activity is centered principally on the sector that would go to the United States in any case.

On Thursday, the Interior Department proposed to open 14 million acres (5.6 million hectares) in the North Atlantic to offshore oil and gas leasing.

The panel, which includes an American and a Canadian in addition to Italian, French and West

German judges, will be making the first judicial determination of a 200-mile zone boundary, as distinct from a boundary for the continental shelf alone or for the territorial sea.

Only the United States pleaded Saturday, Canada having completed its case. Davis R. Robinson, the chief U.S. legal adviser, emphasized two central points about the geography of the area and the characteristics of the fishing banks there.

"The coast of the Gulf of Maine," he said, "is the principal coast of New England, facing the Atlantic Ocean and the outside world. Under the United States proposal, the maritime boundary will proceed in a southeasterly direction perpendicular to the general direction of the coast."

"Yet Canada persists in advocating a boundary that moves still further south across the front of the United States' east coast, claiming nearly half of the last great fishing bank in the northwest Atlantic Ocean to which United States fishermen have access."

"If Canada's line is adopted," Mr. Robinson said, "the entire Atlantic Coast north of Philadelphia — where one-quarter of the entire population of the United States lives — would face not Europe, not the high seas of the open Atlantic, but Canadian waters."

"This issue of 'cutoff,' Mr. Robinson said, "will be replicated in maritime boundary disputes around the world. This issue raises the most fundamental issues of sovereignty. The question of cutoff posed in this case, not only in a geographic sense, but in a political sense as well, affects the interests of all states."

The Americans argue that fish stocks in Georges Bank are separate from those of the Scotian Shelf, an area that would remain Canadian.

The Canadian argument is that it has drawn a line so that every point on the proposed boundary is an equal distance from base points on the coasts of both countries.

Canada maintains that its boundary is an equitable one that the United States has tacitly accepted. It said the United States failed to protest Canada's issuance from 1964 to 1969 of oil and gas permits up to the line it is proposing.

The Canadians also said that evidence indicated that over the same period geophysical survey permits issued by the United States for Georges Bank were granted on the basis of an equidistance formula like the one proposed by Canada.



WHITE-WATER CAMPAIGN — Senator Gary Hart of Colorado, center, winces as the Deschutes River inundates his raft in Oregon, which holds a primary election Tuesday. Senator Hart, a Democratic presidential candidate, paddled and whooped from the bow of the raft and later said trip had been "Too short. Like life."

Weinberger Rejects Dutch Compromise on Cruise

By Rick Atkinson
Washington Post Service

WASHINGTON — Defense Secretary Caspar W. Weinberger has said that the United States has not dropped its opposition to a compromise plan for deployment of cruise missiles in the Netherlands.

His statement came after the second-ranking official in the Dutch Defense Ministry, Jan van Houwelingen, said in Washington last week that the Netherlands would not accept its full share of 48 missiles.

"There are all kinds of Dutch officials running all around. The Dutch government hasn't said anything yet," Mr. Weinberger said Saturday.

Until an official announcement comes from The Hague, the United States will stand firm in insisting that it is vital for the Dutch to deploy all 48 missiles allotted under a 1979 NATO plan, Mr. Weinberger indicated.

Speaking during his return flight from talks in South Korea and Japan, he said that "we've rejected the crisis deployment idea" that the Dutch recently suggested. Under that plan, the cruise missiles would be stored in West Germany or the United States and shifted to the Netherlands in a crisis.

Mr. Weinberger also dispensed a recent General Accounting Office study that questioned whether the MX missile would be suitable for destroying Soviet missile silos later

in the decade. Recent hardening of Soviet silos may mean that the MX needs improved accuracy, a larger warhead or both, the study concluded.

"The GAO used to look around to see if anybody had their hand in the till. That's a very good function," he said. "I strongly question whether or not they have the expertise or capacity to pass on the capabilities of various weapons. ... We're very, very pleased with the accuracy of the first tests so far."

The secretary said that South Korean military leaders expressed alarm last week at North Korea's chemical-warfare potential. There is "evidence that they're working on" nerve gas in North Korea, Mr. Weinberger said.

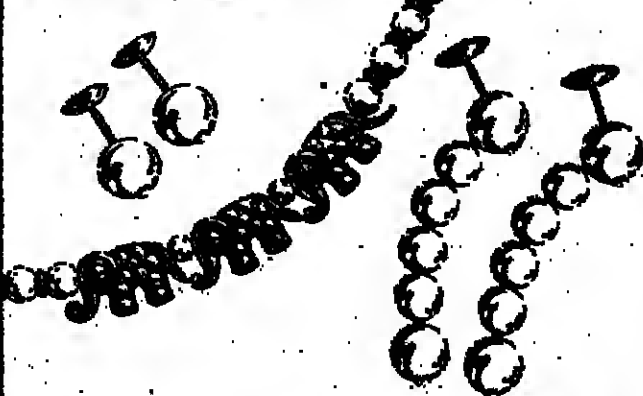
Mr. Weinberger has urged a reluctant Congress to finance the production of new binary nerve gas weapons as the most effective deterrent to Soviet chemical attacks. But when asked whether South Korea has, or should have, stockpiles as a similar deterrent, he declined comment.

"They are going to take the steps necessary to maintain a defense against that," he said. "The whole subject was discussed in general terms. I wouldn't want to go beyond that."

On other topics, Mr. Weinberger said: "Contrary to some press reports, South Korea has not asked for an increase in U.S. troop strength, although 'they sure as hell don't want us to leave.'"

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U.S.-Bonn Agreement
On Air Defense Delayed

By Fred Hiatt

WASHINGTON — A major agreement between the United States and West Germany to cooperate on providing air defense for Western Europe has run into trouble because of rising arms costs and dissension in the Pentagon, officials said last week.

Defense Secretary Caspar W. Weinberger and Defense Minister Manfred Wörner, who approved the accord in principle last December, had hoped to sign a final agreement Thursday at a North Atlantic Treaty Organization meeting in Brussels.

But a West German delegation that came to Washington to work out final details recently went home without a pact, and U.S. officials now say that an agreement appears to be weeks away, at best.

Officials in the Pentagon and in private industry said they believe the accord will eventually get back on track, but they acknowledged that the problems are serious.

The difficulties stem in part from an increase in the price of the Patriot anti-aircraft missile, which is intended to be the centerpiece of a new air-defense system in Europe.

When Mr. Weinberger decided to purchase fewer Patriot firing units for the U.S. Army as part of a general budget reduction, the cost per missile, made by Raytheon Co., rose from \$1.9 million to \$2.2 million, including radar and associated equipment.

In addition, officials attribute misunderstandings in the talks to a bureaucratic battle between Rich-

ard N. Perle, assistant secretary of defense for international security policy, who negotiated the agreement in principle, and James P. Wade Jr., principal deputy undersecretary for research and engineering, who has conducted implementation talks. Each wanted control of the talks, and each is said to accuse the other of blunders in the negotiations.

The Germans are reported to be miffed by reports that the Netherlands may have gotten better terms on a similar air-defense agreement concluded in Washington in January.

U.S. officials, in turn, said they are incredulous that German defense officials are asking for help from Washington in paying a value-added tax on the missiles to their own Finance Ministry.

The two sides are reported to be about \$135 million apart in an agreement that would be worth about \$3 billion in the next 10 years.

The agreement calls for the United States to sell some Patriot missiles to the West Germans and to give them some. In return, West German soldiers would operate the Patriots on U.S. bases, helping to reduce the number of U.S. troops deployed overseas.

Indian Atomic Reactor Opens

Reuters

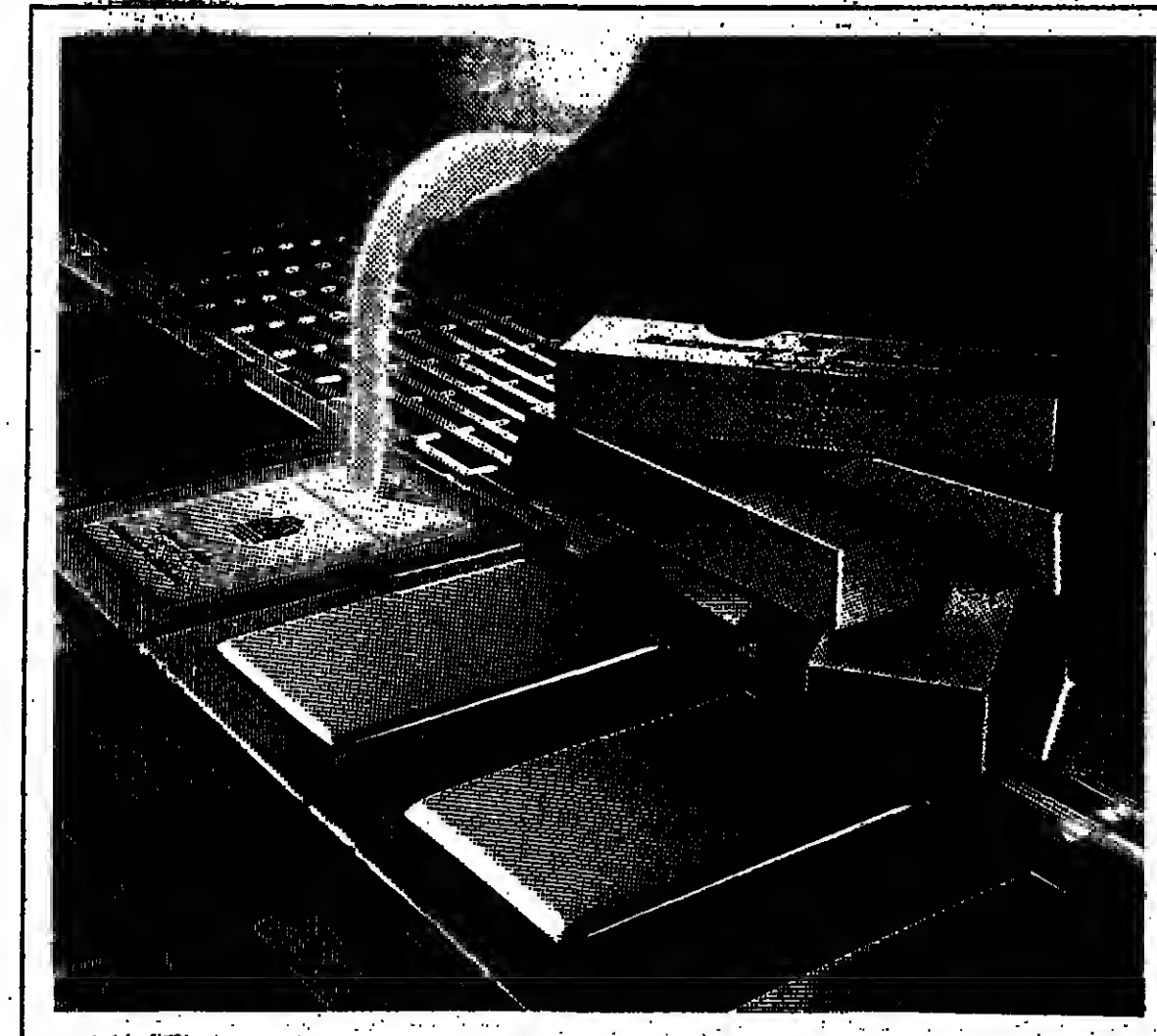
NEW DELHI — The reactor at the Bhabha Atomic Research Center in Bombay went into operation Thursday using uranium-235 made locally from thorium, the government said Saturday.

In Riyadh



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Utah Town Recalls Growing Up With A-Bomb Tests

By Iver Peterson
New York Times Service

ST. GEORGE, Utah — Jacqueline M. Sanders' earliest memories of nuclear fission were of the way her family would bustle out onto the front porch and peer over the red-rock rim of this town at the unnatural fireball lighting the western sky.

Her father, Rudger M. McArthur, the city director of utilities, remembers the arguments that used to follow about whether the cloud of dust borne on the winds over St. George were orange or gray. He said they were gray.

The dust settled on everything, and the government representatives were in town assuring the people there was nothing to fear but asking that they make sure to wash the dust off their cars, then that they avoid drinking milk from local cows. Then, as the years passed and the blasts continued, people were urged to wear little badges to show whether the bearer has been contaminated by radioactivity.

"They said don't drink the milk and don't eat the dairy products," Mrs. Sanders recalled with a little laugh, "but nobody told us kids not to eat our mud pies."

She was 5 when the first bomb,

code-named Able, went off at the Nevada Test Site on Jan. 27, 1951, and 12 when the last one, Tiamia, erupted on Oct. 30, 1958. In between the government blew up the equivalent of more than one billion tons of dynamite in 103 atmospheric tests, and on March 20, 1967, Mrs. Sanders, then 21, was diagnosed as having cancer of the thyroid.

Last Thursday, in Salt Lake City, a federal district judge for the first time ruled that Mrs. Sanders' cancer and those of 9 other victims of the disease in southern Utah and central Nevada were caused by the radioactive fallout from the atmospheric tests of atomic bombs and that the government should have done a better job of protecting the people here.

It was the first time the blame for cancers long suspected to have been caused by the bombs was legally fixed on the blasts and the clouds of fallout that followed, as well as the first time the government was held negligent in allowing the contamination to take place.

In the verdict, Mrs. Sanders received an award of \$100,000 in damages, but government appeals of the decision by Judge Bruce Jen-

kins are certain to keep her from seeing the money any time soon.

In any case, Mrs. Sanders considers herself lucky to be alive, because all of the other cancer cases linked to the bombs in Thursday's ruling were fatal. Relatives of eight of the cancer fatalities were awarded a total of \$2.5 million, with one case remaining to be determined. The judge denied 14 other claims in the case.

As the only survivor among the 10 cases in the landmark suit, which is intended to serve as a basis for settlements for nearly 1,200 additional plaintiffs, Mrs. Sanders considers the ruling a victory for all of southern Utah and this, its principal city.

"I was the lucky one," she said in her home overlooking the red sandstone cliffs that have drawn tourists and film studios to St. George for half a century.

"I didn't really suffer monetarily from my cancer," she said. "My parents had excellent insurance, I haven't had to undergo chemotherapy, and all I have are maybe \$100 a year for medicine and physicals. Some of the others really lost, lost husbands and their children."

For those who lost a relative to cancer, the ruling that the bomb

tests caused the diseases seemed to add to the pain, because such a verdict means the deaths may have been avoidable.

"How can anyone call it a victory?" asked Lorna Bruhn. Her husband, Arthur, the head of Dixie College here, died seven months after contracting an acute leukemia that Judge Jenkins ruled may have been caused when Mr. Bruhn climbed to the top of a nearby hill for a better view of a test shot code-named "Harry" that emitted particularly high levels of radiation.

Mrs. Bruhn and her two children were awarded a total of \$625,000 by Judge Jenkins, the highest award in the case.

"All the money in the world won't pay for what we've lost," Mrs. Bruhn said. "But maybe some good will come from telling the government they can't treat people the way they did us anymore."

Mrs. Sanders, 38, is the mother of six daughters. She wears her blouse high on the neck to cover surgical scars.

"Everybody asks me if I'm bitter," she said. "I can't be. If you're bitter it ruins your whole life, and I have too many good things in my life for that."

But the experience has exacted the price of a reluctant cynicism

about the government. For nothing, it seems, has left a deeper impression on the people of St. George than the evidence cited by Judge Jenkins that the government concealed the dangers of fallout radiation from the people here for as long as possible.

"They lied to us. They tried to lie to us during the trial, they'll lie to us again whenever it suits their purpose," Mrs. Sanders declared.

"Now I might see President Reagan or someone on TV, and he'll say something nice and I'd say to myself, 'I'd like to believe that, but I can't.'"

The feeling of having been deceived similarly tainted the patriotism that runs in this part of the country, a patriotism most people thought was being served by the bomb tests.

"We were told the tests were furthering our efforts for national defense," said Mr. McArthur, Mrs. Sanders' father, "and we should do our patriotic part."

"Then we found out they were wrong and the wind was blowing this way instead of toward Los Angeles before they set off a test, because they knew what was in that cloud."



Cayo Largo is 120 miles southeast of Havana. The Hotel del Sud is visible at the center.

Cuba Goes Capitalist as a First Resort

Havana Seeks Partner for a Foreigners-Only Tourist Site

By Joseph B. Treaster
New York Times Service

CAYO LARGO, Cuba — On this nearly deserted island 40 miles (65 kilometers) southwest of the Bay of Pigs, the Marxist Cuban government is proposing to go into partnership with one of its enemies: capitalist business.

The purpose of the venture, the government says, is to create a plush international resort from which Cubans would be barred. Only foreigners with dollars and other hard currencies would be permitted to relax and play there.

None of this, the government says, is counterrevolutionary or an admission that the troubled Marxist economy cannot survive without help from capitalism.

"Before the revolution," said José Luis Gorrá, a 50-year-old lawyer and adviser to the president of Intur, the Cuban government tourist agency, "the foreigners were the owners. They owned the property and they exploited the riches of the country."

"Now," he said, "we are inviting them to join us to have the advantages of a partnership. In the past our country didn't belong to us. Now it belongs to us and we are inviting people from abroad to join in the benefits."

Mr. Luis said the French-owned Club Méditerranée, one of the most successful resort operations in the world, as well as businessmen from Italy, West Germany and Canada, had inspected the meandering white beaches of Cayo Largo, 120 miles southeast of Havana. So far there have been no takers.

Americans are prohibited from doing business with Cuba under the trade embargo imposed by the United States in 1962, three years after Fidel Castro seized power. American tourists, who had been one of Cuba's biggest sources of money, are also forbidden by their government to travel to Cuba.

There has been a 59-room hotel on Cayo Largo since 1960. But because of the ill-fated Bay of Pigs invasion by U.S.-backed Cuban exiles the next year, the little island and much of the surrounding area was declared a restricted military zone. Until October 1982, the Hotel del Sud lay empty, baking in the sun. Then, after extensive rebuilding, the government opened the hotel in one of its first steps to develop a resort exclusively for foreign tourists with hard currency.

The government has been promoting the modest, neatly kept hotel in Canada and Europe, and officials say it handled 600 to 800 guests a month during the high winter season that ended in mid-April.

There is little but the Hotel del Sud on this island of pines, wild

salt marshes, mangroves and vast empty beaches.

It is the primitiveness that most charms many visitors, and some worry that development will change the island's character.

But there may not be cause for concern. Cuban officials say they believe the tourist market is saturated with glittering, high-rise places such as Paradise Island in the Bahamas and Acapulco.

"We don't intend to imitate these other resorts," said William del Pino, the 35-year-old manager of the Cayo Largo development project. He was born in Detroit of Cuban parents and received an engineering degree from Leipzig University in East Germany.

Most of the roughly 21 square miles (54 square kilometers) of the island, he says, will remain an untouched, protected area. Already, he said, commercial fishermen are banned from the waters of Cayo Largo and the nearby coral reefs, where the remains of three or four Spanish galleons lie on the bottom.

Last year about 80,000 tourists from countries with hard currencies, mainly Canada, Italy and Mexico, visited Cuba, and 20,000 came from East European countries. This compares with about 200,000 tourists, mainly Americans, in 1958, the year before Mr. Castro toppled the government of Fulgencio Batista.

At least part of the resistance from foreign businessmen, Western diplomats say, is due to Cuba's foreign investment law. It requires, for example, that foreign investors, who would be placing probably millions of dollars at risk, accept a Cuban as manager of their projects or at least agree to co-management.

The law stipulates that the government of Cuba, which owns and operates virtually all economic enterprises on the island, must have a controlling interest of at least 51 percent in partnerships with foreigners.

Under the law, nearly all of those

working for the partnership would have to be Cubans. They would actually be employees of a state agency.

There are also lingering memories of the expropriation of foreign-owned property in the early years of the revolution. Mr. Luis says the government offers several guarantees against expropriation. But a visiting Latin American expert in hotel construction said, "Of course, there is still a little fear about this."

Meanwhile, several dozen people are working on the development of Cayo Largo, including a team of three architects, an engineer and two environmental specialists in Havana and some construction crews on the island.

The government has also commissioned the Steigenberger Consulting Co. of Frankfurt, West Germany, to evaluate the market potential of Cayo Largo and advise on design and construction.

Three years ago, when Cuba began thinking of turning Cayo Largo into an international resort, Jesús Jiménez, the vice president of Intur, said the government hoped to build 5,000 rooms in hotels, villas and cabanas.

The West German consulting company has proposed 1,000 rooms. The Cuban architects have made drawings of a resort village with four hotels of about that capacity with a large marketplace that would be filled with duty-free shops and restaurants. The Cubans also envision a marina and an airport with a two-mile runway to take direct jumbo jet flights from anywhere in the world.

Poor world prices for sugar, which provides 83 percent of Cuba's export earnings, the high cost of petroleum and the expense of maintaining the largest military force in Latin America are major factors in the country's economic problems. Last year, Cuba was unable to make all its scheduled payments on loans of \$3.5 billion from foreign governments and banks, and refinanced more than half of the debt at higher interest rates.

1984 World Exposition Opens in New Orleans

By William E. Schmidt
New York Times Service

NEW ORLEANS — Boat whistles blew, fireworks boomed, church bells pealed and thousands of brightly colored balloons rose against a blue sky as the 1984 world's fair began its six-month run along the Mississippi riverfront.

"Laissez les bons temps rouler," declared Governor Edwin W. Edwards, reciting the Cajun expression, "Let the good times roll."

Mr. Edwards was among 14 officials on hand Saturday to open the Louisiana World Exposition, the second world's fair in the United States in two years, following the 1982 fair in Knoxville, Tennessee.

The exposition, which was 10 years in the preparation and which cost about \$350 million, includes exhibitions from 25 nations. It is expected to draw 12 million visitors, the number it needs to break even.

There were fears last week that the site would not be ready for the opening Saturday, so 2,000 workers and cleanup crews worked through the night Friday, clearing most of the construction debris from the 82-acre (33-hectare) fair.

Some worked until noon Saturday, sweeping pavements and washing down sidewalks even as the gates opened and thousands who had lined up outside in the hot sun poured through turnstiles.

Sail, at least two pavilions, Liberte and Pans, were not ready, and neither were three of the fair's major amusement rides, including a 200-foot-tall (60-meter-tall) Ferris wheel.

Most fairgoers seemed delighted with what was waiting for them. Minutes after noon, long lines had formed to ride the monorail that circles the fair site and the cable cars that carry visitors across the Mississippi in small gondola cars suspended 370 feet in the air.

The theme of the fair, "The World of Rivers: Fresh Water as a Source of Life," is strongly underscored by its situation along the banks of the Mississippi. As guests sat through the morning ceremony, large freighters, towboats pushing barges and ferries worked their way up and down the river, just behind the stage.

City officials are hoping the fair will help convert what was once an area of rundown riverfront warehouses into a major tourist and convention center.

A Soviet Convert to Christianity Is Chastised by Youth Newspaper

United Press International

MOSCOW — Sasha Gavrilov used to wear Western clothes and listen to rock music — until he found religion.

Mr. Gavrilov wrote to the youth newspaper Komsomolskaya Pravda telling of his conversion to Christianity and, surprisingly, the letter was published. On Saturday, Komsomolskaya Pravda printed a number of letters telling Mr. Gavrilov where he had gone wrong.

"I hope Sasha wakes up from his foul dream and decides not to waste his youth in senseless vegetation," a reader, describing himself as "an old soldier," wrote. "Lack of will and spinelessness drove him out of this life. He even wrote the word God with a capital letter — doesn't he know of the terrible crimes that were committed and still are being committed in the name of god?"

Mr. Gavrilov said he had been addicted to Western clothes with fancy labels and rock music "pounding in my head." Then he had recognized his vanity.

"I was lucky. I met a good man. Unfortunately, it was not a Komsomol [young Communist] leader or a teacher. It was an Orthodox priest," he said.

Komsomolskaya's columnist, E. Lesotho, who regularly assails Western trends among Soviet youth, commented that Mr. Gavrilov was not the first person to break away from life and added that she hoped to have the chance to meet him "back in the real world" one day.

That assessment has now been supplemented by the study issued in April, "The Impact of World Recession on Children."

It was conducted in Brazil, Chile, Cuba, Costa Rica, India, Nigeria, South Korea, Sri Lanka, Tanzania and Zambia. Parts of the United States and Italy were included.

The report said efforts to lower the infant mortality rate were impeded by cutbacks in spending on social programs. For example, real spending in Chile for social programs in 1982 was said to be less than it was in 1974.

In the United States, the study said, some areas had had an increase in infant mortality rates in the past three years.

The study also indicates that in Brazil and some parts of the United States, the number of underweight births is increasing. An underweight birth is defined as a child born weighing less than 5.5 pounds (2.5 kilograms).

The report was based on case studies and information from national health services. Precise figures were not always available.

3 Chinese Reported Executed
The Associated Press

BEIJING — Three persons were executed Saturday in the Hunan provincial capital of Zhengzhou, after they were linked with a group that bribed officials to sell them coal, then resold it at higher prices, the Workers Daily reported Sunday. The group operated at railroad stations and mines in Henan, Zhejiang, Jiangsu and Guangdong provinces.

(AP, Reuters)

Children Hit By Recession, UNICEF Says

New York Times Service

UNITED NATIONS, New York — The United Nations Children's Fund says a study has shown that the world recession has had its most severe impact on the children of the poorest people.

The trend is intensifying, Richard Jolly, a deputy executive director of UNICEF, said last week. He said that according to data still coming in since the study was issued in mid-April, "the state of health of the children who were studied 'continues to deteriorate.'"

In its annual report for 1983, issued in December, UNICEF estimated that 15 million children under the age of 5 died in developing countries last year. The report added that "for every child who has died, another has been left blind or deaf or crippled or retarded."

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(AP, Reuters)

EC Finance Ministers To Try to Bolster EMS

The Associated Press

RAMBOUILLET, France — Finance ministers and central bankers from the 10 European Community countries have pledged to try to strengthen the European Monetary System.

But the long-term goals of creating a European Monetary Fund and a common EC currency remain far off, said Finance Minister Jacques Delors of France, after a one-day, informal meeting here Saturday.

Mr. Delors said all the participants at the meeting had agreed that the EMS had functioned well since the last realignment in March 1983.

The system was created five years ago and is meant to prevent excessive fluctuations in exchange rates among the countries that participate in the EMS.

Mr. Delors also said that he foresaw no new realignment. Despite recent tensions within the EMS because of the strong dollar, but he confirmed that European central banks had intervened collectively last week to prevent the dollar from rising beyond its current levels.

The British chancellor of the exchequer, Nigel Lawson, said the question of Britain's participation in the EMS had been raised at the meeting. He said Britain had no plans to become part of the system.

Other delegates, however, said the British delegation had appeared less cool than in previous years to the idea of including the pound in the EMS.

The EC ministers will take a new look at the EMS at their next informal session, which is scheduled for mid-September in Ireland, Mr. Delors said.

Participants at Saturday's session, which was held in the Château de Rambouillet southwest of Paris, spent part of the day preparing for several international meetings scheduled over the next few weeks.

Mr. Lawson said that practically all the speakers had expressed "considerable concern" over the level and trend of U.S. interest rates. That subject will almost certainly be brought up at a meeting of the Organization of Economic Cooperation and Cooperation and

Development on Thursday and Friday and at the Western economic summit next month in London.

Mr. Delors said there was a long discussion on the impact of high U.S. interest rates and a strong dollar on the ability of Third World countries to repay their external debts. "It would be a banality to say EC finance ministers are worried by the phenomenon," he said.

He also said that some progress had been made on disciplining EC spending. Although a broad consensus on this was reached at a meeting of EC heads of state last month in Brussels, technical details have still to be worked out.

To push this through, a group of experts is being formed. The group will present a legally binding document for approval at the next meeting of EC finance ministers June 4 in Luxembourg.

The second will be submitted for approval by the EC heads of state when they meet in Fontainebleau, outside Paris, at the end of June.

Mr. Delors also said participants had unanimously condemned proposals in the United States for a unitary state tax on the worldwide income of multinational companies operating there.

Participants at Saturday's session also examined the possibility of raising the amount of funds available for lending to EC members with balance-of-payments problems.

Only two billion European Currency Units remain in the EC's special loan fund, after France borrowed four billion ECUs last year. One ECU is equal to 80 cents.

A final decision on increasing the fund and limiting the amount an individual EC member can draw is expected to be discussed at a finance ministers' meeting on June 4.

Concerning the meeting of finance ministers and central bankers of the 10 most industrialized Western countries and Switzerland on Saturday in Rome, Mr. Delors said there was a consensus among his EC colleagues that there is a lack of liquidity in certain parts of the world. A limited increase in the amount of special drawing rights is necessary, he said.

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Marcos Family's Power Is Focus in Today's Vote

His Authority, Relatives' Candidacies Sometimes Overshadowed Campaign

By Robert Trumbull

MANILA — More than 1,000 candidates are running for 183 National Assembly seats in the elections on Monday. But the campaign, at least on the government television network, has sometimes resembled a drama of one man's family.

Imelda R. Marcos, the powerful wife of President Ferdinand E. Marcos, surprised political observers by announcing that she would not run for re-election to the parliament.

She remains governor of metropolitan Manila and local leader of the Marcos party. Mr. and Mrs. Marcos are seen on television news every night, and she sometimes dispenses the largesse at her disposal in her other role as minister of human settlements.

Their 28-year-old elder daughter, Imee Marcos Manotoc, is a candidate in the family's home province, Ilocos Norte, where Ferdinand E. Marcos Jr., 75, is governor. Mrs. Marcos's brother, Benjamin T. Romualdez, the Philippine ambassador to the United States, is running in his hometown, Cebu, in the central Philippines.

Both relatives are heavy favorites. So is the Marcos party, the New Society Movement.

Things have become very personal. The principal opposition group, the United Nationalist Democratic Organization, nominated the former wife of Imee Marcos Manotoc's husband as a candidate in Manila. She is Aurora Pijuan Manotoc, who won the Miss International Beauty contest in 1970.

Mrs. Marcos's reaction was stormy. "How low can they get?" she said on television. "The opposition is truly sick, cruel, and mean. Poor Imee is still in the Makati Memorial Center trying to get over a painful and traumatic experience in the loss of a child."

Her daughter had been persuaded to run to circumvent a deadlock between two Marcos lieutenants in Ilocos Norte. A week later, Mrs. Manotoc suffered a miscarriage. She made early campaign appearances in a wheelchair, but remains at the Makati medical center.

Drama had touched Imee Marcos Manotoc before. She secretly married Tommy Manotoc, a basketball coach and businessman, in the United States after he had divorced the beauty queen in the Dominican Republic; divorce is illegal in the Philippines.

Soon after returning home in late 1981, he was kidnapped. His parents blamed the Marcos family, who were known to disapprove of the marriage. Mr. Manotoc reappeared in February 1982, saying he had been kidnapped by Communist guerrillas.

Monday's national election will be the first since Mr. Marcos ended eight years of martial law in 1981. He retains powers to order summary arrests, proclaim laws and to abolish the parliament. These powers and the economy are the main issues in the campaign.

The assassination last August of former Senator Benigno S. Aquino Jr., Mr. Marcos's principal challenger, unmarked emotions that had been bottled up for years.

Anti-Marcos demonstrations in Manila and other cities, although nearly all nonviolent, caused apprehension about stability and a disastrous flight of capital. Foreign bank credit abruptly stopped, leaving the country with more than \$25 billion in debts that it cannot pay. Mr. Marcos came under extreme pressure from businessmen and the State Department, whose priorities include the security of important U.S. military bases.

Hoping to ease these concerns, Mr. Marcos guaranteed that Monday's election would be "free and fair." The generally held image of previous voting is that it has been influenced by the Marcos regime.

But when the campaign formally opened in March, Mr. Marcos abandoned his conciliatory tone. He made retention of his powers his central theme.

He accused critics of encouraging the Communist-led insurgency that has produced pockets of rebellion in every province.

His economic aides also went onto the offensive. Prime Minister Cesar E. Virata argued that heavy borrowing abroad has been good for the Philippines, providing roads and other infrastructure, instead of being the fiscal catastrophe that the opposition says it is.

The opposition is hopeful. Salvador H. Laurel, a former senator who heads the United Nationalist Democratic Organization, predicts that it will win 60 of the 183 seats at stake if the vote is "reasonably fair," if not, 40 seats.

Detached political analysts say Mr. Laurel is too optimistic. A boycott, organized by people who say that no election under this government can be fair, is expected to hurt the opposition more than the Marcos party.



HOSTAGES FREED — Sixteen Britons and a Portuguese woman, held by Angolan rebels since February, arrived in Johannesburg Sunday. They were freed after a British diplomat traveled to southern Angola to meet with Jonas Savimbi, leader of the Union for the Total Independence of Angola. Eighty-nine other prisoners seized with them in a rebel raid on a diamond mine in the Angolan town of Kafunfo were freed last month.

All-Party Namibian Talks Break Up, Fail to Reconcile Rebels and Coalition

Reuters

LUSAKA, Zambia — An all-party conference on independence for South-West Africa, or Namibia, ended inconclusively in Lusaka on Sunday with delegates failing to agree on a final statement.

President Kenneth Kaunda of Zambia, the conference host, said it had been impossible to produce a joint statement.

The three-day conference was attended by representatives of South Africa; the South-West Africa People's Organization, or SWAPO, the black nationalist guerrilla movement; and members of the territory's Multiparty Conference Coalition, which is backed by South Africa.

"As was expected we did not achieve the objective, the independence of Namibia, because we were dealing with a subject that has been on the cards for many, many years," Mr. Kaunda said.

He did not mention the deep division between SWAPO and the Multiparty Conference Coalition, a rift the Lusaka talks were intended to bridge.

Dirk Mudge, chairman of the Democratic Turnhalle Alliance, a coalition of 10 conservative European, colored and African political groupings in Namibia, said Saturday that SWAPO had jeopardized the talks by refusing to recognize his group.

The guerrilla movement has repeatedly said it will negotiate only with South Africa, which it terms Namibia's colonial power.

SWAPO has been fighting a bush war for nearly 18 years against South African control of Namibia. Pretoria has fostered the conference as an alternative to the guerrilla movement in the event of an independence settlement.

The main item on the conference agenda was how to carry out a United Nations independence plan for the territory, which South Africa rules in defiance of the United Nations.

Mr. Kaunda said he considered the talks difficult but useful and added that contacts between the parties should be continued. He could not say when a follow-up conference would be held.

South Africa's administrator-general for Namibia, Willie van Niekerk, said that although the meeting did not achieve its targets, he believed progress had been made.

Squabble Preceded Talks
Earlier, Alan Connell of The New York Times reported from Lusaka: Delegates from several parties

said a procedural squabble broke out before the conference opened. They said members of the Multiparty Conference objected to the size and composition of the insurgent delegation, which includes all political groups and break-away groups from some organizations in the Multiparty Conference.

At the formal opening of the talks, Mr. Kaunda, whose personal prestige was bound to a successful outcome, urged the territory's political groups to unite against South African occupation.

"Let it not be said hereafter," he said, "that yet another wonderful opportunity to achieve significant progress toward the freedom... of Namibia has been missed."

There was some optimism that the conference would lead to a breakthrough, since the insurgents are under pressure to seek a political settlement and South Africa has committed itself to honoring agreements worked out between the guerrillas and the internal parties.

African diplomats said that if the quarrelling South-West African parties could be persuaded to form a united front to demand a settlement, the discussion could move on to the details of a cease-fire and the terms of a settlement leading to independence.

Pope, Returning From Asia, States Willingness to Visit Russia, China

By Henry Kamm

New York Times Service

ROME — Pope John Paul II has returned to the Vatican after a 10-day, 25,000-mile (40,000-kilometer) journey to the Far East and says he will continue his world travels, even going to the Soviet Union and China if such trips can be arranged.

Shortly before arriving here Saturday, the pope told reporters aboard his plane of his readiness to go to the Soviet Union or China, although no plans or invitations for such journeys are known to exist.

"Of course," the pope replied when asked if he would go. "The people of Russia are my brothers also, like Polish people."

Pressed further on the possibility of a Soviet trip, he said: "All is possible in the plans of Providence."

John Paul, looking fresh after a few hours of sleep, made his comments as he strolled among the reporters in the back of his plane on the flight from Bangkok.

He commented directly on reported government pressures on the Roman Catholic Church in Vietnam. During the trip an exceptional papal message to Vietnam was broadcast, but John Paul did not directly mention the difficulties confronted by the country's three million Catholics, whose government is trying to separate them from Roman authority. Asked whether the church was in danger, he replied:

"It is in difficulties. But it is a very strong church, a very fighting church."

In reply to a question on whether

he expected Hanoi to answer his message of encouragement to the people, he said: "I expect respect for human rights and religious freedom."

Questioned about his declarations during the journey, which took him to South Korea, Papua New Guinea, the Solomon Islands and Thailand, the pope defended those statements that had aroused surprise or misgivings.

In Seoul, for example, the pope listened to young people ask him questions that contained pointed criticisms of the state of political and workers' rights under President Chun Doo Hwan and replied with a speech that was considered so religious and general as to avoid answers.

"I am aware that between the questions and the answers there is a distance," John Paul said. "But this

distance is necessary. They should reflect. I should give them from the Gospels some principles from which they can get the concrete answers to their questions."

The pope was asked whether two speeches on the problem of Indo-Chinese refugees that he made in Thailand on Friday had not carried the risk that the governments of Vietnam and Cambodia might take an even sterner attitude.

"This would be unjust," he replied. "I accused no power, no authority. I underlined a human problem. This aspect must be stressed. I accused no power. I stated a fact and stressed that there was a moral aspect, which has an international dimension. The problem must be resolved. If our life in this world is to be human, we must resolve human problems. The refugee problem is a human problem."

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LETTERS TO THE EDITOR

(Continued from Page 6)

information is desirable, and I, too, am willing to trust "old-fashioned" American principles of common sense and fairness. However, I fear that until the Soviet regime changes its methods, Americans will continue to find that the U.S.S.R. justifies condemnation.

MARGARET RIGAL

London.

Let Professor Cohen while on about "the defamation of a nation that has suffered and achieved so much." I, along with most people (by Professor Cohen's own admission), prefer to stand by the victims of some of those achievements.

CARLO CRISTOFORI

Luxembourg.

Too Much at Any Age

In response to "The Age Factor: Do Americans Want a 73-Year-Old?" (May 5) by Alex Brummer:

When Ronald Reagan's entourage keeps close watch over his diet and arranges for rest periods during his state visits, it may be covering up the age question—or it may simply be protecting his health and his mental alertness.

It would be an excellent thing if all those who plan foreign policy or make crucial decisions that concern us all would slow down.

This is not necessarily a matter of age. Statesmen, civil servants, scientists, industrialists and busi-

nessmen suffer from jet lag, poor diets, long working days, stress and overpacked schedules at any age. They doze off during meetings, forget names or are confused. Can they cope with political or economic crises when they are tired?

Nowadays many people live longer, work less and lead healthier lives, but those who have great responsibilities and work harder should think of their health.

M.C. SOLVAY.

La Hulpe, Belgium.

A Prism for the '80s

In response to the opinion column "Can the 'China Prism' Help Russia's Look?" (May 3) by John Marks and David Landau:

Instead of 1940s-like war arsenals, could we not revive the "peace arsenal" image? Such a prism could help Western democracies and the Eastern bloc fend off anarchy, mismanagement and confused ideas. Through a peace prism we could see that the Earth is still rich enough to be a garden but is growing too small to be a battlefield.

MICHEL de SELYS.

Braibant, Belgium.

Rights in South Africa

Regarding "Opponents of Botha Reform Launch New African Society" (May 8) by Allister Sparks:

This is an effort to ensure that your readers do not form the impression that the South African government

is in any way making meaningful changes toward equal political power for Coloreds and Indians. Mr. Sparks claims that they will get only a "subordinate form of parliamentary representation" in terms of the new constitution.

If he means by this that their chambers will be only appendices of the white chamber, the soundness of his sources must be seriously questioned, as the Colored and Indian chambers will each have a status equal to that of the Whites.

The White chambers will not be able to reverse a single measure approved by the Colored and Indian chambers which falls within the sphere of their respective interest, while in matters of common concern each of the three chambers will have the power to disagree, in which case the president may, during the same session, refer the bill in its original form, or in its different versions, to the multiracial President's Council for a decision.

If Mr. Sparks means that the Coloreds and the Indians will together dispose of fewer representatives in choosing the president, he should be reminded that their relative numbers correspond to the composition of the population and that South Africa is therefore not out of step with normal democratic procedures applicable elsewhere.

R.A. DU PLOOY,

Ambassador of South Africa, Paris.

Pakistan Under Bhutto

Carla Hall's feature article on Benazir Bhutto (April 17) reflects a lack of knowledge about Pakistan, and also the desire in the West to divide the people of the region for economic and political purposes by promoting the turmoil that pitches people against each other.

In June 1977 there were demonstrations by a big majority of the people of Pakistan against rigged elections. Why martial law was established is a long story. The 1970 elections in Pakistan gave a majority to the late Mujibur Rahman of East Pakistan (now Bangladesh); he had been allowed to form a

government, things would have been different. However, the lady's father had the passion for power and one thing led to another.

Human rights violations in one form or another occur in almost every country to some degree; in some countries they are a necessity for the relative peace of the majority. No leader in his right mind would let his country be ruined by terrorists or egomaniacs.

If you must talk of human rights, what of those who spent months in isolated camps in desert areas, or those who were tortured for even thinking of protesting against some of the atrocities committed at the behest of the Bhutto regime?

MOHAMMAD HASAN.

Tarragona, Spain.

The Cost of an Expert

In "Long Drought Worsens Africa's Bleak Prospects" (April 21), Denis Herstein writes that the United Nations estimates each expatriate "expert" as costing \$100,000 a year to maintain. This tallies with what I know about the cost of West German experts in Kenya and Tanzania. According to Bonn's protocols with Nairobi and Dar es Salaam, an expert is reckoned as "aid given" to the amount of 300,000 Deutsche marks a year. I had thought that German experts were about the most expensive ones in the world, but they seem to be just average.

GUENTER KRABBE.

Nairobi.

Full-Time Twice Over

In response to the feature "Barbara Bush" (April 12) by Enid Nemy:

While it is pleasant to read about an unpretentious woman who enjoys needlepoint, official visits and volunteer work, Mrs. Bush's comment that "you can't, in my opinion, be a bank president and a full-time mother" betrays a woeful ignorance of the job choices that single women who must support their children actually face.

MARION HUNT.

Paris.

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Proverbially Russian

Tell me again, comrade, why we can't go to Los Angeles to beat the Americans. You'd rather have a pot of gold medals than affirm the honor of the homeland? You'd let them march against us, shout insults at us, lure our young people into defecating?

Those can't be your reasons. You would let a few demonstrators prevent a display of superior Soviet man and woman? You really worry about defections? Our athletes compete all over the world without succumbing to their lures. Olympic runners are not ballet dancers. They are hoisting about "captive nations" and they're doing nothing to control the smog in Los Angeles. They are gassing the track!

You can hang a melon from a poplar, but only the fool will think the poplar a melon tree. You will not persuade anyone with this long list of trivial excuses.

Be calm, comrade. Please understand that our pretexts need not be our motives. Why should we admit to a boycott and legitimize the Americans' kind of political warfare? Why should we admit to a boycott for the way they destroyed our Olympics four years ago and give them the satisfaction of knowing it still hurts?

Vengeance denied is no vengeance at all. Oh, they will understand. We're not peasants who have to tolerate their war in Vietnam while they can smugly punish us for Afghanistan. It's cheap to eat grapes in the other man's vineyard. But you let Reagan pose as the champion of peaceful competition. You are re-electing him. No, comrade, you have it backward. Only necessity teaches a bear to dance. What he most wants for Election Day are phony negotiations to reassure his anxious people, smiling encounters that will let him boast how he scared us with his saber-rattling. We may not be able to defeat him, but we're not going to help him claim that his hostility makes us malleable.

Words, words, just words, comrade. No one has ever died of insults. When his farmers complained, he came begging to sell us wheat. At the first sight of blood, he fled from Lebanon. The world will yet teach him its ways without our having to strain so hard.

A wolf without teeth still ogles sheep. Reagan dreams of the teeth of his youth — nuclear "superiority" without American vulnerability, a "rollback" of Soviet power in Europe, a Soviet economy wrecked by the arms race, maybe a capitalist restoration in Moscow. Such a man's words are deeds, acts of hatred.

Will ruining his Olympics cool his passion? It will redeem our self-respect. Half the world jumped through the American hoop in '80. Let them see that half the world now jumps through ours. That is how diplomacy must be waged. If they treat us like equals, we can talk and compete in business and basketball. Treat us like illegitimate threats, then nothing is possible.

Reagan's re-election is highly possible. The horse is often wiser than its rider. Besides, cows have more respect for the ugliest bull than for the handsomest ox.

— THE NEW YORK TIMES.

Talking the Rates Up

At the U.S. Treasury, the cost of ineptitude runs extraordinarily high. On Wednesday the secretary, Donald T. Regan, happily joined the White House's attack on the Federal Reserve Board and scoffed at the inflationary implications of that attack. Perhaps it had slipped his mind that on Thursday the Treasury was to sell \$4.75 billion worth of 30-year bonds.

The people buying the bonds thought the possibility of higher inflation less laughable than Mr. Regan did. After hearing him pound on the Federal Reserve to loosen the money supply, they widened the inflation risk premium in their bids for the bonds, which went at an average rate of 13.32 percent a year. That was the highest in more than two years.

The rate would have been up substantially in any case, since all interest rates have been rising. It is possible to argue, in Mr. Regan's defense, that the administration's continuing deficit accounts for the whole increase and that Mr. Regan's contributions of the past week have been superfluous. But on the whole it seems more plausible to attribute some of the damage to his unrelenting efforts.

If you ascribe an additional quarter of a percentage point to a sudden epidemic of uneasiness among investors on Thursday, you

Other Opinion

Concern for the Team's Safety

No, the Russians are not boycotting the 1984 Olympics in Los Angeles. They are just staying at home because they believe that there are fringe groups in California who would delight in putting a bullet through the back of an athlete wearing a Soviet track suit.

[The Russians] are genuinely concerned about the security of their sportsmen and women. It is not defections that they are worried about. Their track and field teams have traveled the world, and so have their gymnasts and ice hockey players, without any defections, so far as any of us in sport know.

In the context of a nation which has witnessed the assassinations of Jack and Robert Kennedy and Martin Luther King and the shooting of President Reagan, some extremist groups are now distributing lapel badges which say, "Kill a Russian."

— Christopher Brasher in The Observer.

Better to Let the Sakharovs Go

It seems strange that the leaders of a superpower should be so afraid of an elderly invalid couple that despite worldwide opprobrium they are determined to put at risk the lives of Andrei Sakharov and his wife Yelena Bonner. What is this perceived threat to the Soviet regime? Can it really outweigh both the demands of human decency and all rational arguments about the damage that such harsh treatment does to the desired image of the U.S.S.R. — promoted at considerable expense — as the cradle of the welfare state and the shining beacon for the future of mankind?

The claim that [Dr. Sakharov] cannot go abroad because he is in possession of state

secrets makes no sense after almost two decades of dissidence. Dr. Sakharov and his wife have already suffered so much that all but the most courageous opponents of the regime's excesses will be deterred from following his example. If the Soviet leaders are reluctant to allow the Sakharovs to leave lest they in some way contribute to President Reagan's re-election campaign, they should realize that a martyr to oppression would produce even more support for a strong line on Moscow. They should recognize that their own best interests coincide with the hopes of decent people everywhere, and let the Sakharovs go.

— The Times (London).

A Woman's Place Is in 1988?

The idea of slating a woman for the vice presidency is being widely discussed. Jesse Jackson has promised that if he wins the nomination he will choose a woman as his vice presidential candidate. Walter Mondale is probably too cautious to take a chance as seemingly radical as slating a woman on a major party ticket for the first time. Still, political observers feel the day when a woman receives at least second place on a ticket is not far ahead — perhaps as close as 1988.

The serious talk about this year seems likely to nourish that possibility. Robert Teeter, the Republican pollster, notes: "There has always been a segment of the electorate that was favorably moved by the idea of a woman on the ticket, and an opposite bloc that was put off by it. But the group that was offended by it was always significantly larger." This year "about as many people are favorably impressed by the idea as are offended by it."

— Loye Miller Jr. (Newhouse News Service).

The Filipino Elections: A Test for Marcos

By David Joel Steinberg

CAMBRIDGE, Massachusetts — The Philippine legislative elections are being held today in an atmosphere of considerable controversy. A number of opposition politicians have refused to participate in a contest that they believe will be rigged by the government. The United States cannot ignore this controversy, but it must not abandon its efforts to encourage the restoration of democracy in the Philippines.

Indeed, it should use these elections as an occasion to pursue that goal by linking future aid to an assessment of the fairness of the vote.

Until the death of Benigno Aquino last Aug. 21, the Reagan administration and, to a lesser extent, Congress supported President Ferdinand Marcos because he was a stable ally and because America wanted to retain the air base at Clark Field and the naval station at Subic Bay. Meanwhile, the restoration of democracy was slighted. Now Mr. Aquino's martyrdom and Mr. Marcos's ill health have created the worst instability since independence in 1946 and make necessary a policy reappraisal by the United States.

Why should Americans be concerned about Filipino democracy? Eighty-five years ago the United States conquered the Philippines and imposed its will on a mature nationalist movement. It justified its imperialism by creating a colonial government that was meant to dissolve itself, evolving in time into independence. The Philippines was to be a showcase of democracy by which the world could judge the efficacy of the American way. The process, Filipinos adopted and came to cherish the Bill of Rights.

The bonds that link the two nations transcend records on trade and military bases — and they

must not be allowed to atrophy due to geopolitical preoccupations or inattention. America must remember its covenant with the Filipinos, helping them regain the freedoms of speech, assembly and press, the possibility of fair elections, the writ of habeas corpus, an independent judiciary and a military that accepts subordination in civilian authority. This is the best of America's legacy in the Philippines, and to cherish it is neither neo-imperialism nor fuzzy liberalism.

The elections are held against a background of political and economic chaos. Until blame for Mr. Aquino's murder is placed, until the succession process is clarified, until Filipinos decisively

accept or reject the legitimacy of the Marcos government, the Philippines will roll backside in the heavy swells of economic unrest. Weakness by capital flight and an international exchange crisis, the Philippines owes more than \$26 billion, without any means of repayment. Bankruptcy threatens. The social fabric may unravel.

But this era of flux can be one of opportunity for democracy. The elections will test Mr. Marcos's willingness to surrender authoritarian rule.

Meanwhile, the U.S. Congress is deciding whether to alter the mix of economic and military assistance negotiated by the Reagan administration as part of the five-year renewal of the bases agreement. Filipinos who have been calling for a boycott want foreign aid cut off, arguing that any aid sustains the Marcos regime. The Marcos government and the Reagan administration want Congress to accept a \$500-million agreement as negotiated. The Democratic-led House Foreign Affairs Committee has recommended that the package be "front-loaded" to favor economic assistance; it wants \$60 million shifted from military to economic aid in the first year. The Senate Foreign Affairs Committee proposes a smaller shift of \$30 million.

This is a useful first step, but Congress should go further by tying substantial additional aid to events in the Philippines. Filipino leaders, in government and opposition, should know that the United States is prepared to help generously to the degree that democracy is restored.

The writer is author of "The Philippines: A Singular and a Plural Place." He contributed this column to The New York Times.



... or a Diversion the Electorate Should Boycott?

By Agapito Aquino

The writer, brother of Benigno S. Aquino Jr., has been increasingly active in politics since his brother's assassination last Aug. 21.

Many Filipinos question whether honest elections are possible under the Marcos dictatorship. The national voter re-registration that took place in late March was marred by unprecedented anomalies, and the voting may well be even worse. Yet our decision to boycott goes deeper.

No one can deny the central role of credible elections in the democratic process, but it would be myopic to equate elections per se with the substance of democracy. It is all too possible for even honest elections to become an empty symbol that masks the absence of democracy and indeed is used to defuse the demand for it.

That is particularly true in a country like the Philippines, where all power resides in one man and the people have no effective institutional control over his power. In this setting, the only meaningful election is one that offers a realistic hope for the limitation of his power. Today's balloting promises no such thing.

Why, after all, should we bother to vote for a National Assembly that is rendered superfluous by the president's powers to decree law at will and override whatever laws the assembly can manage to enact? What meaning can be ascribed to "clean, honest elections" in a nation where the president can arbitrarily arrest and detain any

citizen? What purpose is served other than to allow the regime to make a false claim to democracy before its citizens and the world?

It was with this in mind that virtually all significant opposition groups — including those who have since decided to participate in the vote — joined last January in a "Call for Meaningful Elections." Our point was that a government that pretends to aspire to democracy should relinquish at least those blatant dictatorial powers that make a mockery of its claims.

President Ferdinand E. Marcos's only response was to go out of his way to affirm that the election of a new National Assembly would in no way diminish his arbitrary legislative powers. It was a clear admission that these elections will be a travesty of democracy.

Certainly there are worthy men among those who have chosen to contest these elections. The tragedy is that their electoral victory can only lend respectability to the democratic facade of the Marcos regime without in any real way denting its dictatorial powers. Unwittingly, then, they are assisting the regime to recover the equilibrium it has lost since my brother was assassinated.

We in the boycott movement intend to use all available nonviolent means to achieve democracy for the Filipino people. Today's boycott is only one step. But it is a necessary step to discredit the dictator's false democracy and bring us closer to the day when we can hold elections worthy of the name.

The New York Times.

A Crisis for Jayewardene: Kidnappers in the North

By Pranay Gupta

COLOMBO — It is Vesak season in Sri Lanka, traditionally a time of fun and festivity, a commemoration of the Buddha's birthday, an annual occasion for festooned homes with multicolored lamps and for exchanging gifts. But for President Junius Jayewardene and many of his 15 million countrymen, the joy of this year's Vesak has been soured.

Late last week Tamil separatists in the province of Jaffna kidnapped two Americans, Stanley and Mary Elizabeth Allen. The couple, married two months ago, were working on a water supply project in the north. They will be killed, the kidnappers say, unless the government coughs up \$2.5 million in gold and releases 20 imprisoned Tamil terrorists. The kidnappers set a deadline for today.

"We will not pay any ransom, nor will we release any terrorists from prison," Mr. Jayewardene said in interviews during the weekend. "We do not bargain with terrorists."

The kidnappings threaten to reignite racial strife and frustrate painstaking efforts to make this progressive democracy a humming economic dynamo to rival Singapore.

"We would like very much to seek

a political solution to our ethnic problems," Mr. Jayewardene said, "but such a solution must be in the framework of a democratic environment. These terrorists have captured two innocent Americans and are threatening to kill them. Tactics such as these are not going to work. We simply do not bargain with terrorists. And we will never allow Sri Lanka to be divided into two nations."

Mr. Jayewardene is furious at what he sees as propaganda victories by Tamil separatists who grab headlines in Western media with allegations of human rights violations. "The terrorists are tied up intimately with the separatist movement, and now they have cleverly linked their movement to the human rights issue," he said, singling out Amnesty International for special criticism.

"Any people in the United States and elsewhere in the West have been misled in supporting the Tamil separatists. I hope that with this kidnapping incident they will think twice before giving such support again."

"My appeal to our friends in the West is: Do not be misled by

stories of harassment of minorities in Sri Lanka and of violation of human rights. That does not happen in my country any more than it does in the United States and in the West. Lincoln went to war to preserve the unity of America. We also will fight to preserve our unity."

Mr. Jayewardene will not say if for the record, but he is understood to be convinced that Tamil terrorists receive arms and money not only from Tamil organizations in America and Western Europe but also from Marxist and other radical governments. Sri Lankan authorities believe that Libya has long helped some of the terrorists. There is evidence that the PLO has provided military training.

Trincomalee harbor, a deep-water port coveted by the Soviets as well as by the Americans for a possible base, is part of the region that separatists want to see included in a Tamil state.

The West has other stakes in Sri Lanka. Under Mr. Jayewardene the country has been a staunchly pro-Western democracy. With his belief that Western-style, free-enterprise capitalism is the key to rapid eco-

The Baltic: No Simple Answer

By Stephen Rosenfeld

WASHINGTON — Did American "official authorities," as the Soviets have charged, "connive" in the planned harassment by Baltic émigrés that Moscow cited in pulling out of the Olympic Games? There is no evidence that Ronald Reagan's hand directed the campaign. But the sequence does reflect his impatience with the ambivalence — the fundamental, unsatisfactory and necessary ambivalence — of America's Soviet policy since the war.

Many Americans are unfamiliar with the three small Western-oriented Baltic nations — Lithuania, Latvia and Estonia — that the Soviet Union invaded and swallowed in 1940. But the Reagan administration has paid major attention to human rights and national aspirations there.

Mr. Reagan saluted their "struggle to attain the freedoms we enjoy" on Baltic Freedom Day last June 13. He set up a new Baltic service of Radio Liberty last Nov. 18 to "reinforce the distinct identities of the Baltic states and separate them from the rest of the Soviet Union." His administration undertook separate reports on the Baltics in the State Department's annual human rights survey. It has pressed Baltic human rights grievances in international forums.

On March 17, the State Department's human rights officer, Elliott Abrams, addressed the Baltic American Freedom League in Los Angeles. The league led the effort to ban Soviet participation in the Los Angeles games and, if Soviet athletes came, to lure defectors from their ranks.

It is clear that the Kremlin was obsessed by the fear of defections. Hence its designation of a KGB officer as an "Olympic attaché," its insistence on housing all Soviet athletes on a ship and, in some measure, its decision to pull out.

I find nothing in the Reagan administration's solicitude for the Baltic states that could reasonably be taken as direct encouragement of the émigré campaign. Certainly it was not the responsibility of the U.S. government to take special measures, abridging the rights of U.S. citizens, so as to spare the Kremlin the humiliation that each defection conveys.

Indirect encouragement, however, is another matter.

"I would like to take this opportunity to declare my solidarity, and the solidarity of the Reagan administration, with the people of Lithuania, Latvia and Estonia, and to applaud you for your work on behalf of the Baltic peoples," Mr. Abrams said, speaking at the émigré campaign's getting into gear. He was not, I believe, winking. But he was ignoring what might have been on the minds of some of his listeners.

Then there is the strand of Reagan ideology which holds that the Soviet Union is an illegitimate and impermanent state. As Mr. Abrams put it, in the course of rejecting the "realism" that consigns the Baltic states to irreversible Soviet dominion: "It is unrealistic to assume that the sole remaining colonial empire, the Soviet empire, will survive forever."

We see here the administration's easy, troubling passage from a heartfelt and deserved sympathy for the Baltic peoples to the enunciation of a radical doctrine sanctioning a crusade to free the Soviet Union's non-Russian components from Russian and Communist rule — not just to recolor the map, but to redraw it.

The Reagan administration is nowhere near inciting subject peoples to revolt. But can its doctrine even be hinted at without raising suspicions in Moscow which work against other purposes of United States policy? And without encouraging victims of Soviet power to dream impossible dreams of American support?

Since World War II, U.S. policy has combined a philosophical notion of the unjust Communist order, and a pragmatic acceptance of the need to cooperate with the Kremlin for expedient but not unworthy considerations of, ultimately, war and peace. But Mr. Reagan, more than any other president, has conveyed a visceral distaste, verging on loathing, for the compromises inevitably required. This is the heady element that has been picked up both by the Soviets, who are angered and frightened by it (and with good reason, because it threatens their ill-gotten gains), and by the likes of the Baltic émigrés, who see it as light itself.

Unfortunately, there is no satisfactory way to be true to the victims and responsible to the wielders of Soviet power at the same time. But good sense — yes, realism — requires accepting the burden of making a conscientious try.

The Washington Post.

LETTERS TO THE EDITOR

Viewing the Soviet Union

Stephen Cohen, in "The Soviet Union: A Script of Bad News and Loaded Language" (May 7), suggests that the American media are responsible for "wholesale vilification" of the Soviet Union. I suggest that fair-minded analysis produces the results that Mr. Cohen deplors.

America has a government elected by a democratic process; the Soviet Union has a regime imposed by a Communist minority elite. America has security organizations to safeguard its welfare and a police force paid by the community; the Soviet Union has secret police in a complicated network of spy rings, and people watch over fellow citizens and innocent visitors with no public accountability. America has allies who choose whether or not to continue in that status; the Soviet Union has satellites that face certain invasion if they try to break their ties.

Mr. Cohen doubts whether slave labor is a fair description of Soviet

penal inmates. In Soviet prisons, labor camps and psychiatric hospitals prisoners are forced to work long hours without industrial safeguards. In freezing conditions, wearing inadequate clothing and with severely restricted diet, men are forced to polish prisms of glass or perform other dangerous tasks that no normal workmen would consider without masks, specially padded clothes and so on. At some labor camps in which men are forced to mine uranium, average life expectancy is reported to be three months. Slaves might expect better.

I agree with Mr. Cohen that new

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FROM OUR MAY 14 PAGES, 75 AND 50 YEARS AGO

1909: Armenian Slaughter Is Retold
MERSIN, Turkey — It now seems that at least 6,500 women have perished in Adana during the recent massacres, and possibly 35,000 in the entire vilayet. The massacre was one of the most ruthless in Moslem history. I forbear to relate any of the stories which form the basis of this statement, with the exception of one. It will illustrate the wholesale scale upon which the massacre was conducted. After the first outbreak more than 2,000 refugees gathered in the Armenian school. On the ground floor Miss Wallis, an English nurse, had opened a hospital, with more than a hundred cases of wounded women and children. On the fatal evening of the second outbreak this building was fired by the troops. Only eight escaped alive. Here 2,000 were added to the death roll.

1934: The Right Hails Jeanne d'Arc
PARIS — What was expected to be just another routine celebration of the day of the sainted Maid of Orleans, France's national heroine, was transformed [on May 13] into the first mass demonstration in Paris of France's organized and militant right-wing forces, as 60,000 Royalists, Nationalists and other patriots marched from the statue of Jeanne d'Arc in the place Saint-Augustin to her other likeness in the place de Rivoli, in a display of national sentiment such as the capital has not seen since the Victory March down the Champs-Élysées at the end of the World War. The usually quiet ceremony developed spontaneously into a demonstration of patriotic nationalism, as if the determined spirit of the Maid herself had returned to the country she once set free.

All the Way To Newark

By David S. Broder

WASHINGTON — A shrewd Nebraska Democrat says it is like the bird rejecting an organ transplant. I think it is more like the girl turning her head at the last minute to avoid a kiss on the lips. Whatever the metaphor, there does seem to be a reluctance on the part of the Democratic Party to accept the inevitability of Walter Mondale. Every time it looks like he has the presidential nomination safely in his grasp, somehow it wiggles free.

Whether this is just cynicism on the part of the Democrats, or some primitive instinct for political survival asserting itself, the refusal of Ohio and Indiana Democrats to endorse Mr. Mondale's candidacy means that his long struggle with Gary Hart and Jesse Jackson will go on to the final day of primaries on June 5 — when, at long last, New Jersey will have its say.

Nonsense, you say. The big test on the final Tuesday will be California. California elects 306 delegates that day. New Jersey a mere 107. The final television debate will come from Burbank, not Trenton. I know that. But I also know that there is no way Fritz Mondale is going to beat Gary Hart in California. I have been to California with Mr. Mondale. Many times.

Mr. Hart and Mr. Jackson are swingers. They both have Hollywood pals and fit right into the casual scene. Mr. Mondale's idea of fun is ice-fishing, not hot-tubbing.

statehouse and organized labor. But he also has potential problems.

Mr. Jackson has an urban base, with large black populations in Newark, Trenton, Camden and Atlantic City. Newark's Mayor Ken Gibson drew 15 percent of the votes in a 1981 gubernatorial primary, and it would not be surprising to see Mr. Jackson break 20 percent.

On the other flank, the vote outside the cities includes many of the independent-minded suburban and rural types among whom Mr. Hart has shown his greatest strength.

Does Mr. Mondale need a New Jersey win? His managers say no — that he can pick up the delegates he needs without it. That is doubtful. His last primary win in a major state came on April 10 in Pennsylvania. That may seem like old news to the convention delegates in July.

New Jersey could clinch the nomination for Mr. Mondale — or throw the nomination open.

The Washington Post.



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BANKING AND FINANCE IN ITALY

A SPECIAL REPORT

MONDAY, MAY 14, 1984

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Foreign Debt Load Reaches Plateau

Special to the IHT

ROME — Italy's external debt position, after having worsened dramatically following the second oil price explosion in the late 1970s, as reached a plateau as foreign borrowing by state enterprises eases and the outlook for the balance of payment shows signs of improving.

Total external debt at the end of last year rose to \$54 billion, from \$48.6 billion at the end of 1981, reflecting a marked slowdown in the rate of increase compared with 1979-81 when it rose to \$48.6 billion, from \$28.2 billion.

The debt position, net of overseas loans and commercial credits by Italian banks and currency reserves of the central bank, has also stabilized and in 1983 was practically unchanged from the previous year, at \$20 billion.

Central bank officials express confidence that the situation is firmly under control as an improving current account allows net repayments to begin in the late 1970s.

While repayments have gathered pace, Euro-market borrowing, which accounted for \$40 billion of the 1983 debt, has slowed, falling from \$11.8 billion in 1981 to \$7.7 billion last year. Bank of Italy officials forecast that new Euro-market borrowing this year will probably be higher than in 1983 and solely to finance repayments of rarer loans.

Italy's external debt worsened sharply in 1980 as a soaring oil bill forced the current account sharply to deficit. Italy's monetary authorities resorted to overseas borrowing to finance the deficit, preventing not to draw on precious treasury reserves. The situation deteriorated further in 1981 as strong domestic demand, increasingly out of phase with the international economic cycle, drew in imports and put the current account firmly in the red.

The present policy of the central bank and Treasury is to hold the debt position at its current level. But Bank of Italy officials believe that if the balance of payments, which last year swung into a 20-million surplus after running a \$5-billion deficit in 1982, continues to improve net repayments could be possible this year.

Euroloan repayments are expected to total about \$4.5 billion in 84, and central bank officials say that nearly one-quarter of this amount could be net repayment, adding optimistic forecasts of an improved balance of payments are met out.

Bank officials say Italy's current account should stay in balance this

(Continued on Next Page)



Use of cash distributors is rising, report inside.

Central Bank: Fighting Free Spenders

Special to the IHT

ROME — Italy's central bank has diligently built up an international reputation since the war, orchestrating the country's spectacular growth in the 1950s and 1960s and then steering the economy clear of the rocks as the miracle years gave way to leaner times in the 1970s and 1980s.

That reputation appears to have more or less survived the widespread criticism at home and abroad over the central bank's handling of the Ambrosiano affair, which culminated in the Milan bank's spectacular demise nearly two years ago.

But as the country's ballooning budget deficit looks set to reach 95 billion lire this year, equal to 16 percent of gross domestic product, some analysts are wondering whether the bank has been sufficiently resolute in standing up to pressures from Italy's free-spending politicians.

"They seem to be less in control than they were 10 years ago," a Milan-based American banker said. "But they certainly deserve full credit for attempting to handle a situation that gets increasingly complicated."

Few would question the sheer professionalism and technical competence of the bank's handling of the monetary situation through a recession that coincided with three years of virtual paralysis in government economic policy.

The bank applied a severe credit squeeze that proved so tight that credit growth stayed comfortably within a corset on bank lending, which was finally phased out in the second half of last year. Until recently it resisted Treasury pressures to bring down interest rates, carefully managing liquidity in the

banking system through reverse repurchase operations on the money market.

By selling Treasury paper from its own portfolio ahead of Treasury bill auctions and then buying them back two days before they are placed, excess liquidity has been drawn out of the system and pumped back in time to absorb the bill issues, ensuring that money market interest rates do not fall in the process.

As the budget deficit has grown — from 13.2 percent of GDP in 1981 to 16.6 percent last year — the central bank has acted skillfully to smooth the process. It responded quickly and effectively to a scare in late 1982 that the Treasury might be forced to consolidate its ballooning short-term debt.

The weighting of the debt has been gradually restructured, as short-term Treasury bill rates have been allowed to fall while long-term rates have been helped upward. Private investors are now barred from subscribing to three-month Treasury paper.

Meanwhile, regarding the exchange rate, the bank has encouraged a controlled but gradual devaluation of the currency. The lira has fallen more than 20 percent against the Deutsche mark since 1982.

But as the deficit has continued to grow relentlessly, the Treasury has put intense pressure on the central bank in recent months to cut interest rates to relieve escalating debt-financing costs.

The Treasury is under heavy pressure from Italy's heavily indebted industrialists to help ease punitive interest rates. As the economy has picked up and tax revenues have risen, the bank has been able partly to accommodate to

these pressures by cutting the discount rate. Meanwhile, there are also welcome signs that the rate of growth in the budget deficit may be slowing.

The central bank's admirers say that it has steered a middle course between excessive rigidity and outright monetary laxity. But critics say it has not been restrictive enough and argue that it has been too anxious to adjust to Treasury pressure.

The most vivid example of this occurred last year when the Treasury was forced to go cap in hand and borrow on its current account with the Bank of Italy after it had exhausted the ceiling set for Treasury bill issues in the 1983 budget.

The bank allowed it to do so and then agreed on a special advance of \$1 trillion lire, the first time such an emergency facility had been granted in peacetime. If the Bank of Italy had resisted Treasury demands, it would have precipitated a major crisis but the critics argue that a tougher line would at least have confronted Italy's politicians with the consequences of their reckless financial profligacy.

The Ambrosiano affair also suggested that the Bank of Italy can be hesitant to stand up to the pressures put on it and to make its policy directives stick.

A Bank of Italy circular issued in June 1981 asking Italian banks to provide more information about their foreign banking operations was only complied with after the Ambrosiano crash. But the bank's defenders say that it is only doing its best in what is ultimately a hostile environment.

"I don't think the Ambrosiano affair has affected the Bank of Italy's determination to do its job in a rough situation. One should also

remember that the central bank has more than 1,000 banks to supervise," a senior Italian banker said.

Some observers believe the bank has never completely recovered its nerve since the Bank of Italy situation in 1979, when the Rome judiciary launched what appeared to be a politically inspired attack on the institution's independence, arresting a senior official and questioning the then governor, Paolo Baffi. Attilio Monti, a noted economics professor at Milan's Bocconi University, has suggested that the bank would be in a stronger position to stand up to pressures from the executive and other quarters if it were placed under the statutory control of parliament.

But whether parliament would prove any less interfering than the executive is perhaps an open question.

Bringing Down Inflation Remains Prime Target Of Craxi Government

By John Phillips

ROME — This year Communist and Socialist trade unions held separate May Day demonstrations for the first time in 12 years in a sign that Prime Minister Bettino Craxi may at last be making progress against some of Italy's more deep-rooted economic ills.

The labor movement in Italy is deeply divided over Mr. Craxi's attempts to bring down inflation by freezing part of the protection of workers' salaries accorded under the controversial *scala mobile* indexation agreement.

Government economists believe it is vital that Mr. Craxi's incomes policy succeed in order to reduce the cost of servicing the massive budget deficit, free the financial scene of excessive concern with the public-sector borrowing requirement and push down very high interest rates.

With inflation at 11.6 percent, the Socialist prime minister's five-party coalition last month issued a new decree limiting automatic wage increases, a day after a similar measure failed to win parliamentary approval and expired because of opposition from the Communists, the largest Marxist party in the West.

The first decree, proclaimed on Feb. 15, set a limit on increases granted by the escalator mechanism of the *scala mobile*. The government hopes to force inflation down to 10 percent this year. The main government concession in the second decree is to cut from one year to 6 months the period for which it will apply.

The new decree took immediate effect but, like its predecessor, it must receive parliamentary approval before a 60-day deadline expires next month, a day before the elections in Italy to the European Parliament.

Political experts say those polls will be a major test for the 50-year-old Mr. Craxi and will measure the real strength of the Communists, Italy's second largest political grouping, for the first time since regional and other local elections were held Nov. 22.

Electoral considerations will thus play a large part in maneuvering around the crucial decree. If the decree fails to win approval for a second time because of Communist obstruction in parliament, it could, in theory, be introduced again.

But if the government decides against introducing the decree a third time it would have to compensate wage earners for the money lost while the decree was in force.

The International Monetary Fund warned Italy in November of potentially disastrous consequences to

be expected if it did not at once make an effort to put its finances in order. Italy's business community is also well aware that it cannot reap the full benefits of world recovery with an inflation rate nearly three times the average of its competitors.

The public-sector deficit currently amounts to more than 15 percent of gross domestic product.

The Bank of Italy, Italy's central bank, said in March that the extent and duration of recovery depends on cutting its budget deficit and on the effectiveness of incomes policy. The economy began to recover in the second part of last year as a result of a growth in exports, but gross domestic product fell by 1.4 percent, according to Bank of Italy figures.

The central bank expects the economy to attain 2-percent growth this year but only if the government can fulfill its goal of bringing down inflation. Treasury Minister Giovanni Goria said he hopes to hold the budget deficit at 90 trillion lire, which would be a significant drop in real terms.

In addition to its key incomes policy, the government has made efforts to cut back on health and welfare spending and to streamline often inefficient state-run industries.

The state-owned energy concern ENI is to sell 20 percent of Saipem, the oil and gas pipe-laying and drilling company. However, Italy has done precious little to trim its steel industry, which is currently losing more than \$1.3 billion a year.

The government has only faded moderately, in addition, on putting its balance of payments accounts in order. The current account was in a deficit of \$5 billion as recently as 1982 but swung into a surplus in 1983.

Italy had its biggest monthly balance of payments deficit for more than a year in March, amounting to 1,952 trillion lire. That took the total deficit for the first three months of 1984 to 3,252 trillion lire, compared with 2,128 trillion lire over the same period of 1983.

Import of raw materials, as well as other side effects of recovery under way, probably account for the

(Continued on Page 10)

Is It Time to Restructure the System?

By Bruno Brovedani

ROME — The Great Depression left a deep mark on the Italian banking system, which by now is so ingrained that removing it may be excessively hard. Ownership structure and regulatory framework — still based on the 1936 banking law — are beginning to show signs of aging, for they often run counter to the basic requirements of modern banking, such as flexibility and a frontierless environment.

The institutional segmentation of the financial system along specialized lines, the far-reaching controls on entry and the widespread state ownership are in fact all legacies of the Depression years when the mood was somewhat paternalistic and more nationalistic than it is today.

Italian banks' capitalization is too low by modern standards; they, therefore, stand in need of capital, but their major shareholder, the state, is hardly in a position to provide it. Banks must offer a broad range of financial services, but their forced specialization prevents them from transcending the rigid confines of their statutory roles. Banks need to expand abroad, but their hands are tied by exchange controls.

What, then, keeps them afloat in our highly competitive world? One explanation is the advent of the financial conglomerate, which offers the opportunity to combine the advantages of institutional specialization and unified management. Another is the flexible application of the rules by a central bank that is fully aware of the needs of international competition. Yet another explanation is the creativity and financial ingenuity of Italian bankers with an extremely modern approach.

But even if bankers, like chameleons, can adapt themselves efficiently in a jungle of obsolete rules, they cannot but feel frustrated when they come in touch with managers of foreign banks who enjoy much greater latitude within their national legislation and statutes. The inspiring experiment in deregulation in the United States is being carefully studied in Italy, but the movement, if any, in that direction is frustratingly slow.

There were more than 1,000 commercial and savings banks at the end of 1982, with 12,000 offices. These are the hard core of the

Italian financial system, which also includes about 40 special credit institutions for development financing in various branches of economic activity. Lastly, there is a growing number of financial intermediaries, which provide all kinds of near-banking services (mutual funds, factoring and leasing companies and several others).

The current classification of credit institutions in Italy — also a legacy of the Great Depression — is based on a rigid distinction between short-term activities (deposits and loans with less than 18-month maturity) and medium-term banking ones, on the one hand, and near-banking on the other. Development financing is the province of special credit institutions, the bulk of which, however, are controlled by banks through participation or affiliation, as are also most other financial intermediaries.

The major private banks fell into government hands as a result of the Depression-related state of insolvency. In a huge bail-out operation, their entire share portfolio, including the banks' own shares, and medium-term exposure were taken over by a government holding company, IRI. It was an accident of history rather than a deliberate policy of nationalization. But state ownership and management control proved convenient and were gradually extended over the years. By the end of 1982, about 75 percent of bank deposits were managed by government-controlled credit institutions. Though the government may now be willing to accept a gradual reduction in control, it is not giving any signs of going as far as to give up its majority shareholding position. Divestment is rarely advocated in Italy, perhaps because banks are practically the only profitable state venture, even though state-ownership may conflict with the requirements of a gradual internationalization of financial markets.

Banks are still the recipients of most financial savings, but the share flowing through them fluctuated widely between a peak of 80 percent in 1974 — when the oil shock and inflation knocked off a large percentage of the bonds' value and made them unattractive to investors — and 38 percent in 1980, when the aggressive competition of tax-exempt Treasury securities swept all before it. Things

improved in 1982, but there was a turn for the worse in 1983-84, when the withholding tax on banks' interest payments was moved up to 25 percent. The banks' direct competitor in the collection of savings is the government: Through the issue of high-yielding tax-exempt securities, it increased its share of financial savings from 6.3 percent in 1975 to a peak of 39 percent in 1981.

In the last decade, the abrupt changes of the relative yields of the different saving instruments available (bank and postal deposits, Treasury bills, securities) would have been much more disruptive of financial markets but for action by the banks. Because of their strong position, they were to mitigate the overall strain by acting as a "balancing wheel" — shifting funds from the short-term market to development financing, and from loans to government securities, or vice versa.

The arrival of foreign banks — there are now 31 branches operating in Italy — has stimulated competition and made useful contributions to financial ingenuity and creativity. Simultaneously, and responding to the EC exhortations to allow free entry, liberalize credit controls and adapt the Italian system to those of other industrial countries, the monetary authorities are taking cautious steps toward deregulation. The banks, for their part, are moving rapidly to strengthen their financial network in Italy and abroad and forge it into an efficient instrument serving the needs of a modern business community.

Although the "banking group," or conglomerate, offers a splendid opportunity to cope with the rigid requirements of the existing legislation, the need for deregulation is still keenly felt, particularly with regard to foreign exchange controls, the segmentation of credit institutions, supervision on new entry and strict operational rules.

Bruno Brovedani is an international adviser and consultant with the Banca Nazionale del Lavoro in Rome and edits its monthly review "Italian Trends." He was previously the bank's chief economist and head of the research department. Before that he worked with the International Monetary Fund in Washington.

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BANKING AND FINANCE IN ITALY

Government Intervention Provides a Safety Net for Business

By Sari Gilbert

ROME — The average visitor to Italy would describe this country's economic system as capitalist. He is probably unaware that behind the free-market glitter of this consumer-conscious society there is a strong interventionist mentality that has made the state a last resort for problem-ridden companies and, in the process, a prime if troubled economic mover.

Perhaps, surprisingly to many, this interventionist ethos antedates the political involvement of the Italian Socialists that began in 1963 and can be traced instead to the postwar political and social concerns of the then-ruling and still-dominant Christian Democrats.

To the new Italian republic the interventionist gospel quickly took root. According to this outlook, the state was first of all not to be excluded from the strategic sectors of the economy and a second major tenet was that political and trade union problems could be best avoided, whatever the consequences to profitability, by keeping companies on the brink of bank-

ruptcy from going out of business. The major result has been a massive and debt-ridden state shareholding sector, easily susceptible to political manipulation, which after decades of serving as a sort of sick bay for ailing companies represents a notable drain on the Italian economy with its huge public deficit.

Alongside this economic giant — the state sector in itself involves close to 1,000 companies and almost 750,000 employees — is an additional special-law rescue network that has now come under heavy fire. For despite good intentions, the system as it now stands has functioned poorly, not least because of its negative effect of draining capital away from more worthy recipients.

At the end of 1983, the situation of the state sector was far from encouraging. The three giant state holding companies, IRI, ENI, and EFIM, registered combined losses of more than 5 trillion lire.

IRI, which has interests ranging from shipbuilding, steel, banking and telecommunications, to highways, glassware, artichokes and canned tomatoes (and also owns

both Alitalia, Italy's national airline, and RAI, the Italian state radio and television network), is Europe's biggest single company with 540,000 employees, a turnover of 36 trillion lire — and accumulated debts of roughly the same amount.

IRI shipping, shipbuilding, machine tools and auto manufacturing (Alfa Romeo) are all doing badly. But at least two-thirds of the company's 1983 losses of 3.2 trillion lire can be attributed to the stagnant Italian state steel sector, whose poor performance far outshadows even the bright spots like STET, the IRI telecommunications subsidiary, which last year had profits of 450 billion lire, and Aeritalia, which had profits of 12 billion lire.

But the picture was not entirely bleak, due largely to new management of both IRI and ENI by economists committed to resurrection of free-market principles.

Under the presidency of the current IRI director, Romano Prodi, who took over 18 months ago, for the first time in 40 years no new debts have been contracted. There have also been no new industrial takeovers, and IRI's SOFIN subsidiary has been successful at salvaging loss-producing firms like Motta-Ale-magna (coffee bars and pastries) and is also preparing to sell several strategic companies back to the private sector.

At ENI, instead, despite a new takeover in the chemical sector, overall losses declined slightly in 1983 to 1.36 trillion lire, leading the president, Franco Reviglio, to predict that this year ENI may finally break even.

The improvement at ENI reflects a sharp reduction, from 1.176 trillion lire to 654 billion lire, in industrial losses, 712 billion lire of the deficit going for interest on debt repayments. In fact, 1983 registered profits of 759 billion lire in

the energy sector — primarily AGIP, the Italian state petroleum agency — whereas losses increased in minerals and metallurgy and remained high in chemicals, making it clear that ENI is still paying the price for the past takeovers of bankrupt chemical firms like SIR, Liquichimica and, more recently, several subsidiaries of Montedison.

At EFIM, the smallest of the three state holding companies, the situation was less encouraging, although some EFIM companies, for example Oto Melara, arms manufacturers, Breda Railways and Italian Classworks are doing well, total 1983 losses are expected to reach at least 600 billion lire (almost double the 1982 deficit) largely because of huge losses of about 400 billion lire at MCS Aluminum and 206 billion by Breda Aviofer (aviation), whose Agusta Helicopters is in trouble.

If the state's traditional direct involvement in the economy has proved a heavy burden for Italian balance sheets, other government attempts at giving assistance to troubled Italian companies have also engendered sharp criticism for inefficiency and wastefulness.

The two major targets of such current grumbling — both scheduled to be revamped — are GEPI, a special holding company set up in 1971 to rescue, through temporary management, ailing manufacturing firms so that their employees would not be out of work, and the 1979 Prodi Law, which since taking effect has arranged bank assistance for about 251 troubled industrial enterprises.

Owned 50 percent by IMI, the state-owned medium-term credit institute, with other government agencies dividing up the rest, GEPI now holds partial or controlling stakes in about 200 companies, currently employing close to 36,000. Although over the years GEPI has restored 100 firms to total pri-

vate ownership, many of the companies in which it has become involved have remained unprofitable, and losses at the end of 1983 were running at more than 1.5 trillion lire.

Critics say the system, as it has operated thus far, has suffered from an absence of strict time limits for restructuring plans as well as a tendency for GEPI to operate more as an employment agency than an instrument for industrial reconversion. A reform project sponsored by the current minister of industry, Renato Altissimo, would seek to streamline the agency, among other things by limiting its competence to small and medium-sized companies in the less-developed Italian south believed to be suffering from temporary problems. Firms in sectors recognized to be in a state of crisis would not be eligible for GEPI assistance. Nevertheless, GEPI remains a permanent fixture in the industrial constellation, with the Italian cabinet this week authorizing 740 billion lire in operating funds for 1984.

Critics of the Prodi Law, also known as Law 95, point to the losses of companies involved in sponsored recovery programs as an indication that the law is not functioning efficiently. They also felt that some of these companies were encouraging the absorption of bank funds that could be employed more productively elsewhere. The law will now be revised to apply only to companies showing promise of recovery from temporary financial or market problems. And, in the future, the eligibility of large companies of "significant public interest" will be made on the basis of sales volumes and not on indebtedness levels.

Despite the problems of the past, however, the interventionist mentality shows little sign of subsiding. Last year, the government came up

with two new investment agencies, REI and RIBS to invest, respectively, in Italy's troubled electronics and sugar beet industries.

The two new agencies represent attempts to streamline state intervention by concentrating on a particular sector and establishing fixed time limits for the period of government shareholding. REI, which began operating on February 1, is to invest 360 billion lire in companies producing color television sets and other electronic components, while RIBS, still to receive final approval, will have an endowment of 240 billion lire for an initial two-year period.

In addition, there is also a further complex of special industrial assistance laws on the books. These include:

• Law 902 (1976), which as of Dec. 31, 1983, had accepted 3,669 applications and handed out 12,669 trillion lire in direct investment to small and medium-sized mining and manufacturing firms in central and northern Italy.

• Law 675 (1977) established an industrial restructuring and reconversion fund of 7,543 trillion lire. However, because authority for the disbursement of funds was received from the EC only at the end of 1983, so far only 88 billion lire have been distributed.

• Law 46 (1982) set up a special rotating fund for technological innovation in the electronics, automobile, refined chemicals, steel and aeronautical sectors. As of January 1984, 459 applications had been received by the Ministry of Industry but due to paper-work delays, distribution of funds had not yet started.

• Law 183 (1976) provides incentives for development of the Italian south under which a total of 33,961 trillion lire have been allocated, of which 95.4 percent had been distributed by Nov. 30, 1983.



Carlo Ciampi, president of the Bank of Italy.

Debt Level Plateau

(Continued From Previous Page)

year and they forecast export-led growth will produce a 2-percent expansion in the economy.

So long as growth in domestic demand lags behind rising incomes, they said, they are confident that there will be no repetition of the disastrous overheating that occurred in 1980-81.

The Bank of Italy seeks some comfort in the fact that some of its main trading partners, such as France, have similar debt problems while others, such as Spain, are believed to be even worse off.

Meanwhile, the Bank of Italy has carefully avoided bunching loan repayments by adopting an effective queuing system for state borrowers, who take the lion's share of Euro-market borrowing. The bank estimates that annual loan repayments will average between \$4.5 billion and \$5.5 billion between 1984 and 1988.

Major borrowers are also being encouraged to borrow in currencies other than the dollar to help spread the exchange risk, although progress in this direction appears to have been slow.

Last year 66 percent of all loans by Italian borrowers were in dollars, compared with 70 percent in 1982. Deutsche-mark loans were unchanged at 10 percent, while borrowings in European Currency Units (ECUs) rose to 3 percent from 1 percent of the total.

With such a high proportion of borrowings in dollars, the Bank of Italy continues to watch U.S. interest-rate trends with some anxiety although significant falls are ruled out in the run-up to the American presidential election.

"Each 1-percent fall in U.S. interest rates would save us \$400 million in interest payments annually," a government economist said.

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Credit Competition Heating Up for Foreign Banking Firms

By Mary Venturini

MILAN — Banking for foreign credit institutions in Italy, as far as earnings are concerned, is showing the first signs of being tougher than it was in the boom years at the end of the 1970s. As one Italian banker pointed out, foreign banks are now advertising in the press, something they would not have considered necessary a couple of years ago. Even managers of some foreign banks say that it is getting harder to make the sort of profits required by the head office.

The most obvious explanation for the change is that competition is far more intense. A decade ago there were about 10 foreign banks with 14 branches in Italy, compared with more than 30 banks with 50 branches today. On the Italian side there were about five domestic banks, with 24 branches overseas 10 years ago, today there are 11, with more than 60 branches.

The policy of the Bank of Italy toward big international banks wanting to enter the country has

been rather more open-minded than that of other major Common Market partners since the European Community liberalized regulations for member state banks in the 1970s. Some foreign credit institutions maintain that the central bank's surveillance is very strict. But once they are in Italy the foreigners are subject to much the same controls as their domestic counterparts. Italian bankers say that they even have some significant advantages.

Almost all the major international banks have a base in Italy, whether an office, subsidiary or a full branch. The list of those with branches is led by 11 American banks, followed by six French, three British, two German, two Belgian and one Japanese, with the Arab Banking Corp. and the Hong Kong and Shanghai Banking Corp. among the latest of the big arrivals.

Even lesser names, such as Republic National Bank of New York, are showing up. But its recent opening of a branch in Milan

can probably be attributed to the size and location of its parent, the Trade Development Holding of Luxembourg, and to the fact that it is a considerable buyer of Italian bonds. This is a sector where few foreign banks are active.

Two other factors explain the change in climate for foreign banks in Italy. First, the international banking crisis in general, which has meant that the world's major banks, especially those with outstanding loans in countries throughout Central and South America, Africa and Eastern Europe, are being more cautious than a few years ago. Secondly, the Italian situation itself: the interbank market, where the foreign banks have been most active and which they have been largely responsible for developing, is no longer what it used to be. At one time the high margins and the scarcity of other banking institutions meant a profitable and relatively trouble-free source of funds. Now margins are down and competition is up. As a

result, foreign banks are realizing that they cannot rely on wholesale operations alone for their money.

So far only one foreign bank has left Italy. The American Express sold its banking activities three years ago to San Paolo di Brescia, a privately owned bank in northern Italy. But its decision to get rid of its six branches had as much to do with an overall company policy to upgrade its travel and tourist interests as with the difficulties and costs of retail banking in Italy.

Initially, most foreign banks were only too delighted not to deal with the expense and the complications of retail banking. Qualified managers are difficult to find and they ask high salaries. The investment in the necessary technology is considerable and, above all, it takes time to develop a retail network.

The foreign-owned bank with the largest retail network is Banca d'America e d'Italia, which is 90 percent owned by an Italian immigrant from the United States. Most foreign banks have preferred to go

into retail banking gradually, and some of them are doing so with an Italian partner. Barclays, the British bank, first bought a major share in an old and well-established Milanese bank, Castelli, before gaining complete control eight years later in 1980. Now it has a branch in Rome, one in Bologna and is hoping to obtain permission to open one in the Veneto region. Another British bank, National Westminster, has a minor shareholding with Credito Italiano in a Milan-based bank, Creditwest.

There are other signs of growing interest in the retail field. Britain's Standard Chartered has added a branch in Padua to its one in Milan. Citibank has opened a branch in Florence after long experience in Milan and Rome.

In the past, foreign banks have attracted either the multinationals who have been servicing abroad or large Italian corporations. This may be changing. Bank of Italy figures show that while the number of accounts at foreign banks is go-

ing up their average size is coming down. And at Barclays in Rome the manager said that many of his clients are now middle-sized Italian companies with foreign trade to finance.

Barclays has also been setting the pace in the parbanking sector with leasing, factoring and consumer-credit companies. The other major foreign bank in this field is Citibank, but competition from domestic banks and finance companies is fierce. Barclays has now gone into partnership in leasing and factoring with the Banco di Napoli and several other Italian credit institutions. This gives the British bank access both to funds and to expertise in the south — a difficult area for foreigners since banking there is very fragmented and more traditional as far as marketing is concerned. The Chase Manhattan is the only other overseas bank to have ventured south. But it sold its branch in Bari two years ago to the Banco di Santo Spirito.

16 Leading Banks Are Preparing a National Credit Card

ROME — Convinced that time is on the side of modernization and progress, a consortium of 16 top Italian banks is busy putting the final touches on a breakthrough project for the establishment of a national Italian bank credit card.

"This is definitely the right time to move," said Mario Castelli of Banca Nazionale del Lavoro (BNL), a payments expert, who has been involved in the plan since the first studies were made in early 1982.

These days representatives of BNL, Banca Commerciale Italiana, Banca Popolare di Milano, Banco di Napoli, Banco di Roma, Banco di Santo Spirito, Banco di Sicilia, Credito Italiano, Monte dei Paschi di Siena, Istituto Bancario San Paolo di Torino, Banco di Sardi-

gnia, Banca Popolare di Novara and the Casse di Risparmio di Roma, Torino, Genova e Imperia and the Provincia Lombarda are working out the legal details that will lead to the establishment, probably by June, of a public company they hope will eventually be opened to all.

It is expected to have an initial capital of 10 billion lire.

The company, which like the card itself still remains nameless, will be facilitated in the early stages by its absorption of the 350,000 cardholders of Banca Commerciale's Conto d'Identità card and Credito Italiano's Eurocard.

International cooperation agreements have already been reached with MasterCard and Access, while contacts with Visa International —

which could possibly lead to an accord with BankAmericard, with 1.2 million cardholders the biggest in Italy — have also been initiated.

Another boost will come from new currency regulations that have recently gone into effect. Italian tourists traveling abroad will now be able to spend up to five million lire a year on travel without any accounting to the government and 80 percent of the total they spend on travel can now be paid by credit card.

With Italian cardholders numbering no more than 1.7 million out of a total in Europe of about 26 million, the use of credit cards is more limited in Italy than in any other major European country, including Spain (with the exception of West Germany, where the Euro-

check system of payments predominates).

In 1983, only 4 percent of transactions in Italy were paid for by credit card. And to demonstrate the traditional attachment to cash in the country, there are other figures like cash payments for 93 percent of car purchases and the fact that more than 50 percent of Italian households still do not have checking accounts.

However, market studies as well as other new developments in banking methods have convinced top Italian bankers that a takeoff is just around the corner.

"It's an irreversible historical process," said Mr. Castelli, who believes that if the new card system gets under way as planned in early 1985, within three years Italy will

have more than caught up with other European countries. He predicts 3 million to 5 million cardholders and between 100,000 and 150,000 associated retailers within three years, adding, however, that the full success of the project depends primarily on the degree to which the Italian banking system as a whole rallies behind it.

Despite the resistance to non-cash payments demonstrated by Italians in the past, bankers appear convinced that Italy may now profit from the super-technological electronic advantage that its late start in the sector has provided. "We will be able to benefit from others' mistakes," said one banker.

"There's a vast potential here," said a spokesman for ABI, the Ital-

ian banking association, which in March decided to participate in the project.

The fact is that Italian bankers see the proposed credit-card system — which in Europe can best be compared with France's Carte Bleue — as providing a much-needed impetus to a generally improved relationship between Italian banks and their often frustrated clients.

"We are in the midst of a silent revolution," said Amerigo Gori of ABI. Indeed, the highly advanced Rancomat cash-dispenser system that was begun a year ago is enjoying an unexpected success, with 1,400 automatic teller machines now in place in 300 Italian banks.

— SARI GILBERT

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BANKING AND FINANCE IN ITALY

Stock Markets Waiting for Gradual Return of Confidence by the Small Investors

Special to the IHT
ROME — After years of battering and indifference, Italy's equity market is looking forward to a gradual invigoration.

Since the country's last major bull market collapsed in mid-1981, Italy's 10 stock exchanges, dominated by the Milan Bourse, have languished. Held back by thin trading and a lack of private investor interest following the 1981 crash, the market suffered a second major blow with the collapse of Banco Ambrosiano in 1982. It has not recovered its vitality since.

Consequently, most brokers and analysts contend that until the market deepens and the small saver regains confidence, hopes for a thriving stock market are premature.

Despite this gloom, the prospect

of several major new-share issues, emerging domestic mutual funds, and a slowly evolving national securities market lead some analysts to believe the market may come to attract a larger chunk of Italian savings away from high-yielding government Treasury bills and bonds.

Italian companies, both state and private, appear to have rediscovered the market. Disillusioned by high interest rates and a lack of state funding, they are turning to the market for financing. The state holding companies Istituto per la Ricostruzione Industriale (IRI) and Ente Nazionale Idrocarburi (ENI) have both announced that they will seek market listings for some operating units.

ENI will offer the market 20 percent of its Saipem oil industry ser-

vices unit around mid-year, while IRI said in April that it will partially privatize 13 more of its 1,200 or so operating companies, including the aerospace unit Aeritalia. Some IRI companies, such as the state-owned airline Alitalia, already enjoy market listings.

A third state holding company, Ente Partecipazioni e Finanziamento Industriale Manifatturiera (EFIM), has also suggested that it will seek to attract private capital.

Italy's private sector is also eyeing the market as a source of funds. Banca Nazionale dell'Agricoltura, the country's largest private-sector bank, and Danieli & C. a closely held builder of steel mini-mills, are planning share offerings. The giant chemicals group Montedison is also expected to seek market listings for several more of its operat-

ing companies. It listed its Selm electricity generating unit last year. Brokers are hoping that such listings will add depth to the market.

The offerings are likely to move slowly, however. Despite repeated nudges by the Bank of Italy and widespread public discussion, Italy's nascent merchant-banking industry has yet to try its wings. New issues continue to be underwritten through the cumbersome state banking system, and by a few private concerns with investment banking interests. Chief among these is Enimont, whose managing director, Guido Vitale, said recently that he expects equity capital will play an increasing role in financing Italian industry, much of which is heavily indebted and state- or family-owned.

A new class of institutional market players, Italian-based mutual funds, are also only slowly moving onto the market. Such funds were approved last year, after nearly 20 years of parliamentary debate. Some were expected to be operational by the beginning of this year. So far, none is, although several banks and institutions have announced that they will launch such funds.

Market-watchers say they have been delayed by lengthy approval procedures set out by Italy's stock exchange regulatory commission, Commissione Nazionale per le Società e la Borsa (CONSOB), the Bank of Italy, and the Treasury.

"I suppose we'll have to wait until November now," for the funds to begin operating, said a senior official in the securities department at a major Italian bank. Long-established Luxembourg-based funds, such as Banco di Roma's Rominvest, and Istituto Mobiliare Italiano's Fonditalia and Interfund, continue to be the only such players on the market.

When they begin operating, the new funds are expected to add depth, professionalism, and trading activity to the market, which is currently dominated by a handful of major banks and insurance concerns. Analysts say they should also help attract small savers who remain cautious about investing di-

rectly in equities. But many feel that unless new and valid issues are regularly injected into the market the funds will find little to do.

Italy's stock markets are thinly traded. The Milan Bourse, which accounts for more than 90 percent of all official transactions, lists only 139 companies, daily trading volume averaged 30.3 million shares in the first quarter this year. The market's capitalization at the end of 1983 was 34.7 trillion lire (\$20.9 billion).

Some analysts contend that many fund managers will ignore the equities market and place their liquidity in government paper. They note that yields on state securities, which went positive in 1981, remain high. Average dividend returns on shares are far outpaced by 12-month Treasury bills yielding 15.7 percent, and seven-year credit certificates yielding 17.25 percent. The differential accounts for much of the small investors' lack of interest in the equities market.

Analysts say that, with the government offering the equivalent of the Milan Bourse's total capitalization in such high-yielding paper every month to fund its huge budget deficit, it is not any wonder that the market remains sluggish.

As new issues trickle onto the market, CONSOB is slowly asserting itself. CONSOB was estab-

lished in 1974 and modeled on the U.S. Securities and Exchange Commission. But it was neglected and became activist only under the chairmanship of Guido Rossi, who resigned in 1982, after the Banco Ambrosiano's collapse. His successor, Vincenzo Milazzo, left last year, and the agency is now led by the former state-sector banker Franco Figa. A parliamentary investigation into CONSOB's scope and effectiveness is under way.

Bot CONSOB is stalling. Early this year, it took steps to control trading as a sharp but short-lived January rise in stock prices threatened to get out of hand, and it is backing attempts to restructure and improve the market. Many analysts say CONSOB's powers are insufficient and its procedures slow. But agency officials counter that the commission is understaffed and lacks the necessary infrastructure. It only recently opened a full office in Milan, Italy's financial capital.

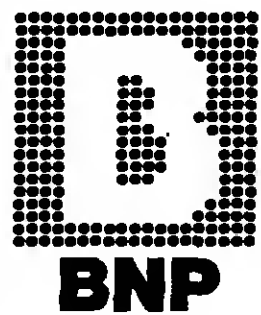
One major project under CONSOB's tutelage is the creation of a national securities market. Currently, separate prices for each listed share are set on each of Italy's stock exchanges. But last December CONSOB authorized the setting of a single price on several exchanges for 10 major issues. They include the automaker Fiat,

Montedison and the state-controlled telecommunications holding company STET on five exchanges: Rome, Trieste, Genoa, Florence and Naples. Stock-exchange officials say their eventual aim is to create a national, continuous auction market to replace the current fragmented call markets.

But a lack of advanced, real-time communications, and the exclusion of the Milan Bourse from the current group of exchanges setting unified prices stand in the way. Market-watchers say they expect a national securities market to evolve only slowly.

Meanwhile, Italy's equity market continues to be plagued with historical problems: its small size, lack of players, and a reputation for being a den of insider trading. Many analysts say they think the Milan Bourse will rise out of its current doldrums over the next few months, if Italy's economic recovery continues and if the government finally manages to implement its policy to reduce the budget deficit and bring wage increases and interest rates down in line with inflation.

But others contend that, no matter how favorable the external environment, the market can only evolve gradually and tentatively without the return of the confident small investor.



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A 3d Year of Decline In Fixed Investments, But Upturn Expected

ROME — Although economists here describe the outlook for 1984 as one of "cautious optimism," final data for 1983 show that last year Italian fixed domestic investments declined for the third year in a row, indicating that the international recession and a scarcity of risk capital had combined to make things difficult for some Italian businessmen.

At the same time, analysts said, statistics continue to conceal the substantial vitality of much of private industry. In fact, after a tendency toward disinvestment a series of favorable conditions now appear to have stimulated renewed interest in Italy by foreign investors.

These days officials at the Bank of Italy are busy putting the final touches to the governor's annual report, which is to be released on May 31.

Last month, however, the Italian Treasury and the Ministry of the Budget issued a joint, three-volume report on the economy, according to which last year's drop of 1.2 percent in GNP was accompanied by a real decline of 5.3 percent in fixed domestic investments, which in value reached 96.268 trillion lire. In 1982, with the end of a three-year investment boom that began in 1979, investments had dropped by 5.2 percent.

The study showed that of all branches of the economy, the worst hit was the industrial sector, where 22.976 trillion lire of investments in 1983 represented a decline, in real terms of 12.4 percent. The greatest damage — negative 19.5 percent — showed up in investment in machines and equipment, indicating that investments, when made, were not going toward new plant and productive installations.

According to Antonio Martelli, head of the research department at Confindustria, the Italian manufacturers' association, the contraction of investments reflects the international recession of the last few years, which, because of declining demand, has left Italian industry operating at only 70 percent of capacity, a cyclical decline following the 1979-1981 investment boom. Moreover, he said, there has been a general change, with the economy shifting away from basic industries like steel, chemical fibers, shipbuilding and fine chemicals to newer industries like electronics, biotechnology and robotics.

But if unencouraging market prospects in at least the first part of 1983 limited investments, Italian businessmen were also negatively affected by a restricted capital market that has left many firms undercapitalized.

There are several reasons for the capital shortage that causes many Italian businesses difficulty in financing operations. Principal among these is the government's need to finance a massive public-sector deficit that this year is expected to surpass 96 trillion lire.

Although the ratio of savings by Italian families is one of the highest in the West, 24 percent, the bulk of this potential investment reservoir has been drained away from private industry by the government, which at the end of 1983 had issued Treasury bonds and bills amounting to close to 500 trillion lire.

This means that when unable to finance themselves out of profits businesses must turn to Italy's banks for operating capital, an unappealing prospect, since the Bank of Italy's tight money policy, designed to bring down inflation, has caused interest rates to soar. At present, the Italian prime rate is 17.5 percent and most companies seeking loans find themselves forced to pay between 20 and 25 percent in interest.

A third reason can be found in the atrophied nature of the Italian stock exchange, which with only about 150 shares quoted, has never

functioned properly as an instrument to the transformation of savings into risk capital. In part, this is because of ignorance and suspicion by potential savers, not to mention what businessmen see as tax disincentives (stock earnings are taxed while the interest on Treasury bonds are not). In part, it reflects reluctance by the proprietors of Italy's many family-owned enterprises to accept the loss of control that a listing on the exchange might involve.

Financial authorities have long recognized the utility for the Italian capital market of a revitalized stock market, and last year the governor of the Bank of Italy, Carlo Ciampi, urged the formation of merchant banks as a way "to foster the enlargement and strengthening of medium-sized companies and gradually lead to the listing of their stock on the stock exchange."

It is in this light that one should see the recent establishment in Rome of two new financial institutions. Officials at Italfinanziaria Internazionale, a subsidiary of the state-owned medium-term credit institute or Istituto Mobiliare Italiano, explained that a major purpose of the company is to pick up temporary (three to five years) and minority holdings (up to 20 percent) in healthy, medium-sized

Inflation Remains Target

(Continued From Page 7)

March decline, but Italy has a high propensity to import and the current account is not expected to improve much this year compared with the last. Against this background, the prospects on the microeconomic level for personal income and profits look better than for the economy as a whole because of the highly dynamic private sector.

Italy is a richer country than it often appears to be, and, coupled with Italians' above-average propensity to save, this helps explain why Italian banks rank among the most profitable in Europe.

Family incomes, for example, rose an average of 17.6 million lire in 1982, compared with 13.5 million in 1981. Only about 55 percent of family income came from work as a regular employee. Of the rest, about 17.9 percent came from second jobs and "black" work in a submergery economy, 14.9 percent from transfers and 12 percent from capital.

If the recovery symptoms continue, Italian banks will come under increasing pressure to reduce interest rates. Last week, two major Italian banks, Credito Italiano and Banca Commerciale Italiana, reduced their prime rates from 17.5 to 17 percent, and others were expected to follow. But it was not immediately clear what impact these moves will have, and some financial sources described the changes as "largely symbolic."

In December, the government took a step making it possible for rates to come down, announcing that it was lifting individual credit restrictions on banks as from Jan. 2. But the central bank said that it would also seek to place a global limit of 12.5 percent on domestic credit growth in 1984. If the government limits lending opportunities with stringent credit controls, the banks felt justified in seeking a return where they can, and corporate borrowers find they need to pay anything from 20 to 25 percent for money.

The accord on Banco Ambrosiano creditors' claims, to be signed on May 25 in Geneva, is another healthy sign for Italian bankers.

Present investments, now at 170 billion lire, consists of holdings in 15 firms, including 20-percent stakes in Buffetti Optical Supplies, Finfer Finanziaria (Tuscan tiles and ceramics) and Inglen (international glass engineering) of Florence and a 10-percent share in Fincom, a Fiat subsidiary in Turin specializing in industrial robotics.

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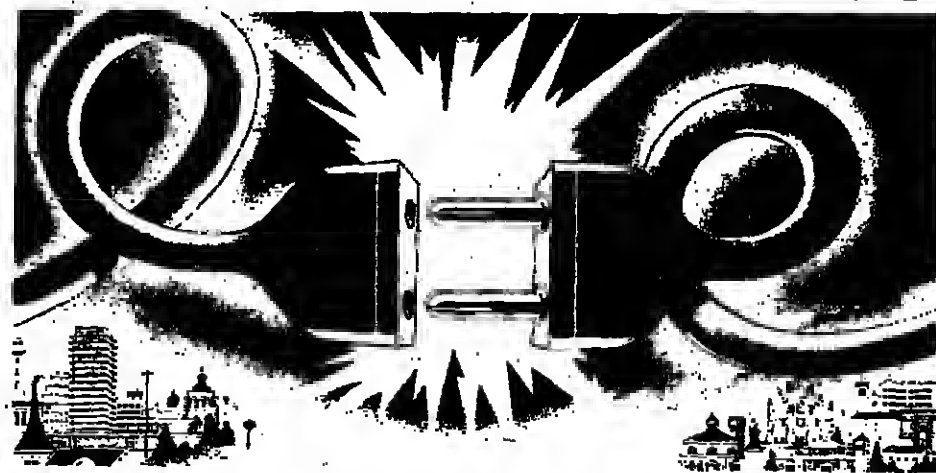
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BANKING AND FINANCE IN ITALY

Nuovo Ambrosiano Earns Reputation for Innovation

By Larry Gurwin

ROME — On Friday, Aug. 6, 1982, Italian Treasury Minister Indro Montanaro signed a decree putting Banco Ambrosiano into liquidation. It was the culmination of what one news agency called "the most spectacular financial collapse in the country's post-war history."

Not only was Ambrosiano the largest of Italy's private banks, but its collapse had been preceded by the mysterious death of its chairman, Roberto Calvi. Other elements in the affair were Mr. Calvi's links with the secret P2 Masonic Lodge and with the Vatican's own bank, the Istituto per le Opere di Religione (IOR).

Although the liquidation decree struck the legal "death" of Banco Ambrosiano, branches, employees, and customers remained, and these were immediately absorbed by a new bank, Nuovo Banco Ambrosiano. The new institution's share capital of 600 billion lire was subscribed by seven Italian banks, and opened for business on the Monday following the liquidation of the old Ambrosiano.

(Nuovo Banco Ambrosiano took over the domestic business of the old bank, but not its foreign subsidiaries, which had defaulted on more than \$1 billion in debt.)

It would be hard to imagine a bank starting life in less auspicious circumstances. One of the many serious problems facing the chairman, Giovanni Bazzoli, and the general manager, Pier Domenico Sella, was a sharp erosion in cus-

tomers' confidence. For months preceding the liquidation, Ambrosiano had been suffering from a massive run on deposits. When the new bank opened, customers' deposits were just 1.8 trillion lire — about half of what they had once been.

The run on deposits created another problem: overstaffing. Although the new bank's balance sheet was much smaller than its predecessor's, there were the same number of employees — 4,250. Yet, agreements with labor unions barred management from cutting the staff through forced layoffs.

Another drain on profitability was the high volume of nonperforming assets. The shareholders of Nuovo Ambrosiano had paid 350 billion lire for the old bank's good will, in recognition of the fact that it controlled several attractive units through its La Centrale holding company. These included, two northern Italian banks — Credito Varesino and Banca Cattolica del Veneto — and Toro Insurance Company. (Banca Cattolica recently disclosed 221.8 billion lire of possible bad debts, amounting to 91 percent of its capital of 243 billion lire.)

The profits of these units, however, were more than canceled out by the losses of another subsidiary, the Rizzoli Publishing Co. Thus, La Centrale is paying no dividends, and the 350 billion goodwill payment is, for the time being at least, a nonperforming asset. "No other bank in Italy has such a burden on it," Mr. Gallo said.

Finally, Nuovo Ambrosiano faced lawsuits from disgruntled

shareholders and creditors of the old Ambrosiano. Nearly 40,000 small investors had held shares in the old bank and several of them retained lawyers to seek restitution from its successor. Creditors of Mr. Calvi's foreign subsidiaries began serving writs in early 1983, seeking upward of \$500 million.

One of the first priorities of Nuovo Ambrosiano's management was restoring customers' confidence in order to reverse the outflow of deposits. "We had to recover our image," Mr. Gallo said, "so we have invested a lot in advertising." Full-page newspaper ads appeared in the autumn of 1982, stressing the solidity of the new institution. "A bank made by banks" was one slogan. More recently, the bank has run glossy television commercials. Mr. Gallo estimated that about 2 billion lire have been spent so far on advertising. More substantively, Nuovo Ambrosiano's branch managers offered above-market interest rates to depositors — generally a percentage point above what they could get at competing institutions.

These steps began to take effect within a few months, and, by March 1983, customers' deposits had reached 2.735 trillion lire. At the end of last year, the figure was 3.489 billion lire.

The bank said that it is now paying the same interest rates as its competitors. The overstaffing problem has been dealt with through early retirement plans and generous severance pay to younger workers. The combined effect has been to reduce the staff to fewer than 3,900. In addition, about 300



The Nuovo Banco Ambrosiano building in Rome.

employees have been placed in newly opened branches. (The old practice was to hire new staff whenever new branches were opened.)

There has also been good news on the litigation front. Mr. Gallo said. Shareholders of the old bank are being given warrants that will entitle them to purchase shares in the new bank at the same price paid by the founding shareholders. The warrants can be exercised in May 1985.

Investors with lawsuits against the bank were barred from participating in the plan, and Mr. Gallo said, all the legal actions have been withdrawn. Creditors of the old Ambrosiano are expected to withdraw their lawsuits as part of a settlement, which is to be signed in Geneva on May 25.

The problems of La Centrale still remain, but the group is quickly being restructured. In March of last year, Toro Insurance was sold to a group of investors led by Gianni

Agnelli of the Fiat auto company. Early this month, an agreement was reached to sell Credito Varesino to Banca Popolare di Bergamo. "Rizzoli still has problems," Mr. Gallo said, "but it is doing better than before."

In Nuovo Ambrosiano's first operating period — the 11 months ending June 30, 1983 — a loss of 24.9 billion lire was reported. For the year ending June 30, 1984, management expects to break even, Mr. Gallo said. "Naturally, we will have problems," Mr. Bazzoli said, "but the trend is decisively positive."

One indication that Italy's financial community is impressed by Nuovo Ambrosiano's management came in a survey conducted by *Il Mondo*, the leading business weekly. When readers were asked early this year to choose the country's "most innovative" bankers, Mr. Bazzoli ranked in the third place out of the 20 bankers on the ballot.

Bank Commissions a Source Of Customer Dissatisfaction

ROME — "The small savers are not at all satisfied, nor are the entrepreneurs," said Carlo Clericetti, a journalist who writes about banking for *Il Messaggero*, Rome's largest daily.

"Above all, there is a lack of clarity in the relation between banks and their clients over the various charges that are imposed," Mr. Clericetti said.

Tension between the banks and their customers came out in the open earlier this year when the Comitato Difesa Consumatori, a leading consumer protection group, delivered a formal petition to the public prosecutor's office in Milan asking investigators to look into the commissions that banks charge customers on the purchase of Treasury bonds and on transfer of money between accounts in separate banks.

Gustavo Ghidini, the secretary of the consumer group, said bank officials were very concerned about the protests. "They have accepted our position that the commissions are too high and have proposed a flat-rate commission of 5,000 lire for each purchase of Treasury bonds," Mr. Ghidini said after the Italian Bankers' Association met to discuss the matter last month.

Mr. Ghidini hailed the proposal as a "first victory" for consumers. Press reports were more cautious, however, suggesting that it may be some time before the widely varying commission rates charged by different banks on the purchase of government bonds become uniform.

Newspaper reports said savers are little protected in a "jungle" of varying commissions. Treasury Minister Giovanni Goria has expressed concern because the bonds are a major source of income for Prime Minister Bettino Craxi's government.

Mr. Ghidini and his committee are adamant that the banks will also have to review the practice whereby clients receive no interest for at least two working days after depositing a check from another bank in their accounts.

The delay used to be justified by the time it takes to clear the check. But with modern technology, checks issued in the same city can usually clear the same day or faster.

If the check is issued by a bank in another city it may be as much as 15 days before the customer starts earning interest, under the present system.

"They are crazy," said Mr. Ghidini, a lecturer in commercial law. "Clients are treated like subjects."

The image of the bankers themselves as portrayed by the Italian media has often been unflattering in recent years.

Visiting an Italian bank can be a harrowing experience because of slow customer service. Cashing a check in one of the big banks in Rome can take 30 to 45 minutes. Frustrated customers can sometimes be seen hurling abuse at clerks or tossing checks into the trash can in disgust.

Bankers' cautious attitudes to practices common in other countries sometimes seem incredibly outdated. A banker in the foreign department of a big Rome bank spent several minutes trying to dissuade a client from making a standing order with which to pay his rent, on the ground that it would still be valid if he forgot to revoke it when he moved out of his apartment.

The banks made much of their decision in December to open at last for an hour in the afternoon. In the past they were only open from 8:30 A.M. to 1 P.M. This was without doubt one of the most positive moves taken by the banks in years.

Checks can be cashed in five

minutes in the afternoon because many customers are taking an afternoon nap or are still unaware of the new timetable. However, not all transactions feasible in the morning, such as arranging for payment of an electricity or telephone bill through a bank account, can be carried out in the afternoon.

The pride and joy of the Italian system is its integrated nationwide network of cash dispensers. "It's a beautiful thing, we seem to be ahead of every other country in the world," Mr. Clericetti of *Il Messaggero* said.

The banks set up the Bancomat cash dispenser network in early 1982 and about 1,000 automated teller machines (ATMs) are expected to be in place by the end of this year. Bancomat is the first unified network among Italy's 1,085 different banking institutions.

The savings banks paved the way for the change by developing Italy's first ATM network — known then as Carismat, after the Casse di Risparmio, savings banks — in 1981.

Later, the Bank of Italy gave tacit approval to the notion of Bancomat but pioneers of the new system had to overcome the opposition of some major banks that were against providing small Casse di Risparmio with a national network. Despite this breakthrough, banking services of many kinds lag behind those of Northern Europe.

— JOHN PHILLIPS

Accord Is Reached on Ambrosiano Creditors' Claims

ROME — Creditors of Banco Ambrosiano's foreign subsidiaries, who have been waiting nearly two years for their loans to be repaid, are expected to be compensated shortly.

According to reports from Rome, a settlement is to be formalized in Geneva on May 25. Under the terms of the agreement, 120 foreign creditor banks will receive \$406 million, or 68 percent of the claims of \$600 million. The Italian bank, the Istituto per le Opere di Religione (IOR), will reportedly pay \$244 million toward its settlement.

The agreement was also expected to provide about \$100 million for Italian creditors of Ambrosiano, raising the total settlement at more than \$500 million, according to Italian banking officials.

Banco Ambrosiano failed in 1982 as the result of a plan carried out by its late chairman, Roberto Calvi. In the 1970s, Mr. Calvi established a network of dummy companies in which offshore financial centers as Panama and Liechtenstein. These companies purchased Banco Ambrosiano shares with money lent to them by foreign subsidiaries

of the bank. The subsidiaries raised the funds mainly from international banks in the Euro market. Eventually, the dummy companies' debts totalled about \$1.3 billion.

In 1981, Mr. Calvi's subsidiaries asked him for assurances that the offshore companies could repay the loans. To allay these concerns, Mr. Calvi obtained "letters of patronage" from Archbishop Paul Marcinkus, head of IOR. The letters implied that IOR was the owner of the ghost companies and responsible for their debts.

When Mr. Calvi disappeared from Italy in June 1982, Ambrosiano officials asked IOR to repay the offshore companies' debts. The Vatican bank refused and, on June 17, the Bank of Italy was called in to take control of Ambrosiano. The following morning, Mr. Calvi's corpse was found hanging under a bridge in London. (It has still not been determined whether it was murder or suicide.)

Italian authorities decided to honor all debts and deposits of the Milanese parent bank — but not those of its foreign subsidiaries. In July 1982, those subsidiaries defaulted on their debts — an event

that sent shock waves through the Euro market, since banks had until then been regarded as prime risks.

Although Italy refused to take responsibility for Ambrosiano's foreign units, officials did put pressure on the Vatican to repay the dummy companies' debts. The Vatican refused, saying it had nothing to do with the companies.

In November 1982, however, a Vatican-appointed panel issued a report acknowledging that IOR had been the legal owner of 12 of the ghost companies, although the panel argued that IOR was still not responsible for the companies' debts.

A six-man joint commission was appointed on Dec. 24, 1982, with three members each contributed by the Vatican and by the Italian government. The job of the panel was to clarify the relationship between IOR and Ambrosiano and thus pave the way for a settlement of the dispute.

While the Italy-Vatican commission went about its work, creditor banks continued to push for a settlement, making it known that they were prepared to take IOR to court if necessary. The Vatican had its

own special reasons for wanting to resolve the affair: until it did, the Italian government would probably be unwilling to sign a revised concordat, the agreement regulating relations between Italy and the Holy See.

On Feb. 14 of this year, the Italian treasury minister, Giovanni Goria, told the Senate that "it is reasonable to expect a quick solu-

tion" of the dispute, adding that IOR seemed prepared to make "a financial contribution." Three days later, liquidators of Ambrosiano announced that a draft agreement had been reached. The next day, a revised concordat was initiated by Prime Minister Bettino Craxi and the Vatican secretary of state, Cardinal Agostino Casaroli.

— LARRY GURWIN

CONTRIBUTORS

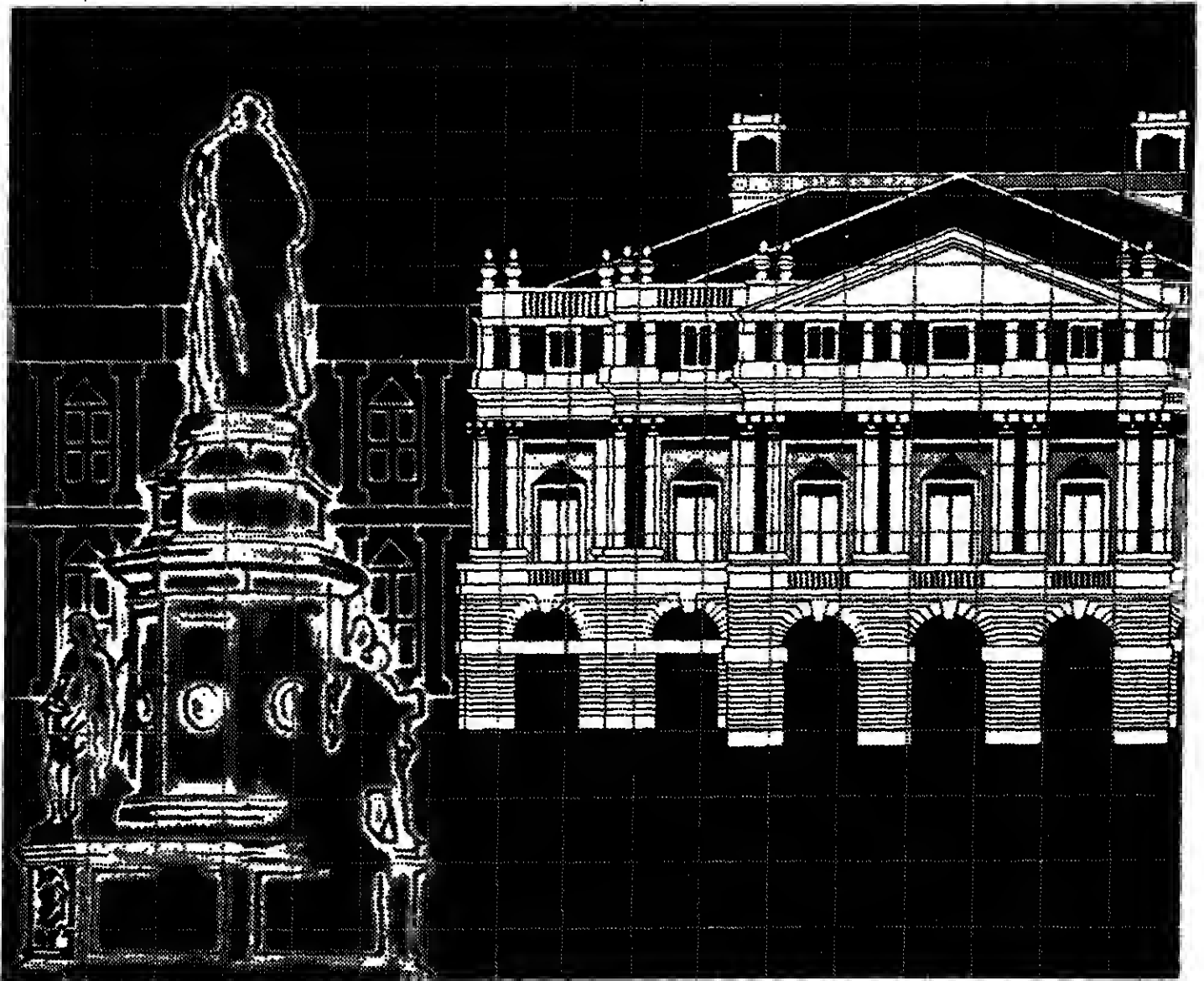
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EUROBONDS

Rise in U.S. Rates, Change in U.K. Rules Jolt Market

By CARL GEWIRTZ

International Herald Tribune

PARIS — The Eurobond market was shaken last week as the entire range of U.S. interest rates moved sharply higher and investors headed for cover to wait until the dust had settled.

That wait is likely to be long. According to Henry Kaufman, chief economist at Salomon Brothers, the top of the increase — which he sees carrying rates beyond the record highs set in 1981 — can be expected in early 1985.

Last week's upward jolt in interest rates pushed overnight dollars up 5/16 percent and one-year funds rose 1/4 percent. That alone would have been enough to undo the bond market.

But in addition there were renewed fears about the impact that rising rates and a soaring dollar would have on the ability of developing countries to service their debt to commercial banks — fears that were fueled by rumors, vehemently denied, about an impending collapse at Continental Illinois, the seventh-largest U.S. commercial bank.

On top of all this, the Bank of England chose last week to formally notify banks about its concern over the pyramiding of bank debt (in the form of subordinated floating-rate notes) within the banking system. The central bank has been studying the question since January and the drift of its thinking was well known.

Nevertheless, the timing apparently caught banks off guard because the publication of its guidelines sent the price of subordinated floating-rate notes of British and U.S. banks skidding.

Those prices would have dropped in any event just to bring them in line with the rise in interest rates. But the combination of jitters about banks and a feared widespread purge of FRN portfolios held by U.K.-based banks sent prices into a free fall.

The fresh worry about banks last week was measurable. An indicator that many analysts look at is the spread in the futures market between Treasury bill and Eurodollar rates. The lower the spread, the higher the confidence in the banks.

Last year, for example, that spread had narrowed to a low of 97 basis points (or just below one percentage point). That was down from the high of 325 basis points set in 1982, when the emergence of the Third World debt problems created fears of a banking crisis.

Last Thursday, the spread hit 195 basis points — up from 140 a week earlier — and by Friday, with worries about Continental Illinois abating, it had receded to 175.

Just how much this deterioration in confidence added to the weakening of bank FRNs cannot be measured. But the total effect of all the bad news last week was dramatic. The FRNs of British banks, for example, ended the week trading at 15 to 20 basis points over the London interbank offered rate, up from the previous range of 9 to 10 basis points above Libor. Depending on the maturity of these notes, the rise in yield meant prices had declined by as much as half a percentage point — a big move for a market that normally measures change in hundredths of a percentage point.

The major issuers of subordinated notes — the focus of the Bank of England's new guidelines — are banks in Britain, the United States and Canada.

The proceeds from the sale of subordinated debt are counted as capital by banks, and the capital base, the Bank of England is saying, should be held outside the banking system. If not, there is added risk of contagion in the event that one issuing bank collapses.

In other words, if Midland Bank buys \$100 million of subordinated FRNs issued by Barclays and Barclays buys \$100 million issued by Midland it would be unsound banking to consider that the capital base of the U.K. banking system has increased \$200 million.

To avoid such double counting, the Bank of England says in effect that if Midland holds such Barclays notes Midland must

(Continued on Page 15, Col. 1)

Eurobond Yields
For Week Ended May 9

U.S. 18 term, 18% int.	12.36 %
U.S. 18 term, 18% int.	12.79 %
U.S. 18 term, 18% int.	12.54 %
Cont. 18 term, 18% int.	13.47 %
French 18 term, 18% int.	12.09 %
Yankee 18 term, 18% int.	12.22 %
ECU 18 term, 18% int.	11.05 %
ECU 18 term, 18% int.	11.29 %
ECU 18 term, 18% int.	11.32 %
ECU 18 term, 18% int.	9.81 %
FLX 18 term, 18% int.	11.00 %
FLX 18 term, 18% int.	10.82 %

Market Turnover
For Week Ended May 11
(Billions of U.S. Dollars)

Total	7,985.4
Europe	1,204.6
U.S.	1,530.3
Other	5,249.5

THE CREAM OF THE CROP: HOW THEY RANKED

Best Overall Best Labs Trammell Crow Delta Air Lines Goldman Sachs Hallmark Cards Hewlett-Packard I.B.M. Pliny Bowes Northwestern Mutual Life Time Inc.	For Pay Atlantic Richfield Leo Burnett Trammell Crow Exxon Goldman Sachs Hewlett-Packard Hewlett-Packard Linnit Plywood Merck Shell Oil	Best Ambience Advanced Micro Devices Apple Computer Atlanta Richfield Bell Labs Doyle Dane Bernbach Hallmark Cards Hewlett-Packard Kollmorgen Los Angeles Dodgers Merle Norman Cosmetics Herman Miller Northwestern Mutual Life Odetics Physio-Control Pitney Bowes Publix Super Markets	For Benefits Apple Computer Atlanta Richfield Bell Labs Trammell Crow Hewlett-Packard I.B.M. Johnson Wax J.P. Morgan Procter & Gamble Time Inc.
And Runners-Up Advanced Micro Devices Merck J.P. Morgan SM Publix Super Markets	For Advancement Citicorp Gore I.B.M. Lowe's 3M Nordstrom Procter & Gamble Quaid/Grasshops Tandy Westin Hotels	For Job Security Advanced Micro Devices Delta Air Lines Digital Equipment Exxon Hewlett-Packard I.B.M. Johnson Wax Linnit Plywood Procter & Gamble Worthington Industries	

People Come First in List of 100 Best U.S. Firms

By Thomas C. Hayes
New York Times Service

LOS ANGELES — What we have in "The 100 Best Companies to Work for in America" — a fresh compendium of companies that, at the very least, do more than the usual amount of thinking about employees — is an effort to marry the "The Book of Lists" with "In Search of Excellence: America's Best-Run Companies."

The authors, Robert Levering, Milton Moskowitz and Michael Katz, spent part of 1983 scouring the country, gathering tips wherever they could, from personnel directors, executive recruiters and secretaries, trying to come up with an arguably salable

collection of America's "superlative employers."

They acknowledge that the result, brought out this month by Addison-Wesley Publishing, Reading, Massachusetts, is hardly scientific. It ignores, for example, all professional concerns, such as law, architectural and accounting firms, as well as universities, foundations and metropolitan newspapers, where the nature of the work, regardless of the benefits, presumably holds considerable appeal.

Moreover, the financial data is sketchy, consisting typically of a rough gauging of sales, annual rates of growth, and perhaps some figures on research spending and return on equity.

The authors make no apologies. The numbers, they say, are the grist of most business journals. What they are pursuing, instead, is "the human condition" inside business, "a company-by-company comparison" of workplace environments.

In fact, each of the 100 companies is ranked against the group overall, with a potential score ranging from one to five stars in each of five categories: pay, benefits, job security, chance to move up and ambience. They also list the number of employees and the main operation sites. California has the most, 36, followed by Texas, at 23, and New York State, at 21. The range in employees within the United States peaks with International Paper Co. (Continued on Page 17, Col. 5)

GM Chairman Says His Bonus Isn't So Large

Washington Post Service

HOT SPRINGS, Virginia — Roger B. Smith, the chairman of General Motors Corp., said that the \$1.4 million he received from the company last year seems like a lot of money until you look at it.

Mr. Smith defended his 1983 compensation when asked if the amount would cause problems for GM in its coming talks with the United Auto Workers union.

If the \$1.4 million is adjusted to account for inflation, and compared with what his predecessors at GM have received, he ranks 33rd out of 40, he said.

The total of bonuses paid to GM executives for 1983, allowing for inflation, makes last year the 26th lowest of the 30 years the bonuses have been paid, he said.

He noted that GM had rebounded from a record loss of \$763 million in the depths of the last recession to last year's record \$3.7-billion profit.

"What would you pay for people who would do that?" he asked reporters.

Bonus Issue Revives Car-Quota Fight

Reuters

DETROIT — Recent criticism of the large bonuses being paid to U.S. auto company executives has refocused attention on the issue of voluntary restraints on Japanese car exports to the United States.

The limits on Japanese car exports were negotiated soon after the Reagan administration took office in 1981.

The aim was to buy time for the major U.S. automakers, General Motors Corp., Ford Motor Co. and Chrysler Corp., to recover from the industry recession that followed the oil price shock of 1979 and caused collective losses of more than \$4 billion in 1980.

Wall Street securities analysts said that lack of greater competition from Japan in both volume and pricing was a significant factor in the Big Three U.S. automakers achieving a record \$6.1 billion in profits in 1983.

The quotas, originally set to expire at the end of last March, were later extended another year and are now scheduled to continue until the start of the second quarter of 1985.

The United Auto Workers union and many members of Congress have firmly supported the restraints, fearing that U.S. jobs could be lost if imports are allowed to grow beyond their current figure

of about 25 percent of the U.S. market.

William E. Brock, the U.S. trade representative, created the controversy May 1 when, citing the bonuses, he called for an end to the quotas.

The trade representative said the U.S. car companies had forfeited any right to protection from Japanese competition by failing to show restraint in their bonus policy.

The car companies responded that the bonuses were needed if they were to attract and retain good managers.

Vice president George Bush said later, however, that Mr. Brock's statements did not reflect Mr. Reagan's views and that no decision had been made on whether the quotas would be allowed to expire next year.

The debate surrounding the issue, however, seems to be increasing the mood of confrontation between the car companies, the union and the Reagan administration only a few months before the start of talks on a new autoworkers wage agreement.

Industry analysts said the possibility that the quotas could be lifted next year might cause the union to put a higher priority on job security than on large wage increases in the talks.

Stung by what it saw as management stonewalling, the union last week polled its members in Stuttgart and Frankfurt, rallying 80 percent support for a strike. That exceeded the 75 percent required by union bylaws, but the results were seen as moral support for the embattled union's leaders, not as enthusiasm for a walkout. The Stuttgart majority was the weakest in the union's history there.

By selecting Stuttgart and Frankfurt for its opening moves, the union intentionally skirted the Ruhr industrial belt, where the troubled steel industry is centered and where high unemployment makes strikes unpopular.

IG Metall aimed instead at the thriving automobile industry. The first strikes Monday will hit companies that supply parts to industry

German Strike Could Challenge Government

By James M. Markham

New York Times Service

BONN — The world's biggest trade union is to start a strike Monday that could challenge Chancellor Helmut Kohl's conservative West German government.

The metalworkers' union, IG Metall, will mobilize 13,000 of its 2.5 million members for scattered walkouts in pursuit of a 35-hour workweek. The opening blows will be limited, but the government and businessmen fear they might snowball, endangering incipient economic recovery.

The union hopes to create a swift ripple effect throughout the industry without exposing too many of its workers to lockouts.

The 35-hour slogan is a bit misleading. While industrial wages are reckoned on the basis of a 40-hour week, the average worker puts in roughly 32 hours, when generous vacations, holidays and time off for illness are calculated.

The dispute, perhaps inevitably, has become heavily politicized. Mr. Kohl has dismissed the 35-hour proposal as "silly and dumb."

Mr. Kohl's Christian Democrats, having made significant inroads into blue-collar bastions in last year's election, hope to appeal over the heads of union leaders to the wavering rank and file. But protracted strikes could embitter labor and management, rally other unions to the IG Metall banner and undo the economic upswing that Mr. Kohl is counting on to reap more working-class votes in next year's vital state election in North Rhine-Westphalia, where 17 million of the 61 million West Germans live.

Hoping to recover lost blue-collar sympathies, the opposition Social Democrats have warmly embraced the 35-hour goal.

Without showing all their cards, the unions have made clear they would settle for less than their announced objective. And Gesamtmetall has hinted that it might consider shorter weeks and early retirement for older workers.

■ **Union Leader's Warning**
Hans Mayr, the union's chairman, said Sunday he hoped the strike would convince management to return to the bargaining table. United Press International reported from Stuttgart.

"If this opportunity isn't grasped," Mr. Mayr said in a television interview, "then this strike could quickly leave deep scars."

Both sides have expressed a willingness in principle in recent days to reopen failed contract talks.

Feldstein Disputes Regan Criticism of Fed Policy

By Peter Behr

Washington Post Service

HOT SPRINGS, Virginia — Martin S. Feldstein, the president's chief economic adviser, has disputed Treasury Secretary Donald T. Regan's criticism of the Federal Reserve Board and warned that the oilies Mr. Regan advocates could "lead to an increase in inflation next year."

Mr. Feldstein, chairman of the resident's Council of Economic Advisers, said Saturday that he is appalled and concerned by Mr. Regan's campaign to pressure the Federal Reserve to lower interest rates.

"I think it would be a terrible mistake to try to push interest rates down by expansionary monetary policy," Mr. Feldstein told reporters covering the spring meeting of the Business Council, a grouping of leaders of the biggest U.S. businesses and financial institutions.

On Friday, Mr. Regan had aimed that if the central bank maintains its current monetary policy "for months and months and months," interest rates would rise

so far that the economy could be thrown into a recession.

But he cautioned that he was not predicting that a recession would occur.

The Federal Reserve chairman, Paul A. Volcker, also attending the meeting, defended the Fed's policies but would not comment on the administration criticism. Asked whether the Fed can control interest rates, Mr. Volcker replied, "Not the way people seem to think we can."

Mr. Feldstein, who has said he will leave the administration in July, suggested that Mr. Regan is out of step with the White House.

"I think the Treasury secretary is speaking for himself and doesn't reflect the basic philosophy the president has about monetary policy," he said.

Mr. Regan and the White House spokesman, Larry M. Speakes, have said the Fed's recent decision to tighten credit conditions slightly was not justified by economic conditions.

The comments by the officials followed the decision by banks last week to raise the prime, or base, lending rate to 12 1/2 percent, the

third increase in the last two months and the highest prime rate since October 1982.

Mr. Feldstein said, "I think [the president] understands you can't look at current inflation and, if it's low, relax your guard and pursue an easy monetary policy."

"It's clear that if the financial markets think that the Fed has

Monsanto Seen Paying 46% of Herbicide Fund

United Press International

CHICAGO — Nearly half of the \$180-million settlement to compensate Vietnam War veterans exposed to the herbicide Agent Orange is to be paid by Monsanto Co., a magazine reported.

The veterans' suit — settled Monday just before it was to go to trial in federal court in New York — charged that seven chemical companies were negligent in making the herbicide, used by the United States to defoliate jungles during the Vietnam war.

Chemicals in the herbicide combined to form dioxin, one of the most toxic substances known to man. The veterans contended that their exposure to dioxin caused rare cancers, skin diseases and birth defects.

In agreeing to the settlement, none of the companies admitted any fault. The agreement is the largest personal injury settlement in U.S. history.

Business Insurance, an insurance-oriented weekly, quoted insurance-industry sources as saying that Monsanto has paid \$81.9 million, or 45.5 percent percent, of the settlement. Monsanto is based in St. Louis, Missouri.

Dow Chemical Co., based in Midland, Michigan, has paid \$35.1 million, or 19.5 percent of the settlement, the sources said.

The balance of a trust fund, which is designed to compensate veterans and their families for ailments related to dioxin exposure, was paid by five smaller chemical companies, the sources said.

The amounts paid by each company was decided under a formula that takes into account the total amount of Agent Orange that each delivered to the U.S. government and the percentage of dioxin in each company's product, the magazine reported.

Dan Bishop, a spokesman for Monsanto, declined comment on the amount or the formula for deciding the portions.

"The portion that each company will pay is under court seal," he said. "I can't confirm how it's going to be based. There are only two people in our company that do know, and they're under court order not to release the information."

Jim Burke, a spokesman for Business Insurance, said the court order extends only to the companies, not their insurers.

The five other chemical companies involved in the settlement and their shares of the fund, according to Business Insurance, are:

- Diamond Shamrock Corp., Dallas, \$21.6 million, or 12 percent.
- Hercules Inc., Wilmington, Delaware, \$18 million, or 10 percent.
- T.H. Agriculture & Nutrition Co., Kansas City, Kansas, \$10.8 million, 6 percent.
- Unifroyal Inc., Middlebury, Connecticut, \$9 million, 5 percent.
- Thompson Chemical Corp., Kansas City, \$3.6 million, or 2 percent.

Thompson went out of business in 1969 but was represented by an unidentified insurer.

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NEW EUROBOND ISSUES

Issuer	Amount (millions)	Mat.	Coup. %	Price	Yield of offer	Price end week	Terms
FLLOATING RATE NOTES							
Caixa Geral de Depositos de Portugal	\$ 60	1994	1/4	100	—	97.88	Over 6-month Libor. Minimum coupon 5.5%. Redeemable at par in 1989 and 1991, and callable at par in 1987. Commission 2.5%.
Tokai Asia	\$150	1999	1/4	100	—	99.55	Over 6-month Libor. Minimum coupon 5.5%. Redeemable at par in 1994 and 1996, and callable at par in 1988. Commission 2.5%.
FIXED-COUPON							
European Investment Bank	DM 150	1994	8	99 1/2	8.07	—	Callable at 101 1/2 in 1991.
SNCF	ECU 45	1994	11 1/4	open	—	—	First callable at 100% in 1991. Price to be set May 15.
Finland	DK 200	1989	11 1/2	100	11 1/2	99 1/4	Noncallable.
EQUITY-LINKED							
Investment ab Beijer	\$ 30	1990	9	98	9.40	96.75	Noncallable. Each \$1,000 bond with 30 warrants, each exercisable until Sept. 1989 into company's series A shares at \$10 NK each.
Nippon Shuppan	\$100	1999	open	open	—	99.00	Coupon indicated at 2.5%. Callable at 104 in 1987. Convertible at an anticipated 5% premium.
Royal Company	\$ 40	1999	open	open	—	—	Coupon indicated at 3%. Callable at 103 in 1989. Convertible at an anticipated 5% premium. Terms to be set May 15.
Sekisui House	\$ 50	1999	3	100	3	98.00	First callable at 103 in 1989. Convertible at a 4.61% premium.

Rate Rise Jolts Eurobond Market

(Continued from Page 13)

deduct that holding from its own capital base.

At the same time, the central bank does not want to kill the FRN market for bank paper — where an estimated \$50 billion of securities is already outstanding.

"We have been giving careful thought to how some continuing market-making role might be reconciled with our basic objective of seeking to ensure that the capital resources of banks are held outside the system," the Bank of England wrote to the British Bankers Association, which forwarded copies to its members.

"We have concluded that to allow any broad alleviation from this policy of full deduction would be undermining our objective. This means that a concession needs to be framed restrictively, and would apply to only a limited number of specialist institutions which already make a market in bank-issued capital instruments.

"Among these institutions we have identified two categories of activity which warrant separate consideration: Lead-management and underwriting of new issues in the primary market and market-making in the secondary market.

"For primary market makers, the concession would allow specialist institutions to hold issues of their banks' capital for up to three months from the date of issue. . . there would be no specific limit on the amount of capital held in this way. The size of holdings of individual issues would be subject to the arrangement made for large issues.

"For secondary market-makers, the concession would allow a certain limited number of banks to maintain total holdings of bank-issued capital up to a limited proportion of the holder's capital base free from deduction. Any excess, in our opinion, would be deducted in the normal way. Such limits would

be expected to represent a modest proportion of the capital base that would be agreed with individual institutions, case-by-case. This concession would only be available for those undertaking a specialist function as a genuine market-maker in bank issues."

The central bank also warned: "In theory, no doubt, it would be open to individual banks to circumvent these restrictions by entering into artificial arrangements of swapping holdings, for example, through sale and repurchase transactions over reporting dates, etc. I am sure that the bank can rely on management to ensure that this does not occur, but we will reserve the right to call for details of the portfolio of the investments held at any time and not only on reporting dates."

Analysts were uncertain what impact the guidelines would have on the market for subordinated bank FRNs. Most analysts were taken aback by last week's sell-off, believing that most institutions affected by the policy had used the past four months to realign their portfolios.

For example, the FRNs issued by Japanese banks and French banks are not subordinated capital notes but rank as deposits and therefore escape the restrictions. Likewise, the FRNs of sovereign borrowers are also excluded. Thus, U.K. banks that have built up a portfolio of FRNs as a means of maximizing the return on their money-market positions need only substitute the acceptable FRNs for those on the proscribed list.

Dealers noted that prices of these FRNs held much more steady last week. The big question worrying dealers is how liquid the market will now be for the subordinated notes of U.S., British and Canadian banks. Liquidity — or confidence that holdings can be bought or sold without causing the price to move — is an important feature to inves-

tors. If the liquidity is damaged, the market is damaged.

The only dollar issues to be marketed last week — aside from a string of Japanese convertibles that failed to engender much excitement and a small warrant issue for a Swedish company — were two floaters.

Tokai Bank's offering of \$150 million of 15-year notes, which investors can redeem after 10 or 12 years, held up well, reflecting the fact that it does not fall within the Bank of England's guidelines as well as that its first coupon, which will be set at 1/4 point over six-month Libor, will be high. In addition, recent Japanese FRNs had the coupon set at a less attractive 1/4 point over the mean of the bid-offer rate.

The cost to the borrower, however, is not much different from what other Japanese banks have been paying as it paid lower commissions to market the paper.

The small \$60-million FRN for Portugal was regarded as a disguised syndicated credit and attracted no demand.

The Deutsche mark sector was also virtually shattered, battered by the woes of the dollar bond market and its own special worries. These include fears that the Bundesbank this week will raise its discount and Lombard rates and worries about the impact of the impending metal-workers strike in West Germany.

A scheduled issue for France's CEPME was canceled following the rise of DM interest rates and worries that in the current depressed environment a coupon higher than the borrower was willing to pay would not assure a successful placement.

European Investment Bank marketed \$50 million DM of 10-year bonds at 9 1/2% bearing a coupon of 8 percent and ended the week quoted at 98.

On Monday, bankers will meet to set the calendar for the coming month.

U.K. Sees New Air Fare Cuts as a Victory for Freer Competition

By Bob Hagerty

International Herald Tribune
LONDON — Britain is loosening the pressure in its drive for lower European air fares, but nothing resembling a price war seems likely to break out soon.

British Airways, KLM Royal Dutch Airlines and British Caledonian Airways announced plans last week for round-trip fares of as low as £49 (\$68) for London-Amsterdam flights, down £38 from the cheapest ticket currently available.

The British government cheered the cuts as a minor but significant victory in its crusade for freer air

competition, an effort in which its only major ally so far is the Netherlands.

The British hope that the new cheap fares will divert tourists from other European airports. If London-bound tourists in Belgium and West Germany start riding the train to Amsterdam before boarding a plane, airlines throughout Europe will take note.

"It might make them revise their views," a British transport official said Friday.

Even so, he said, "we don't expect this to happen terribly quickly."

The BA and KLM fares, avail-

able starting July 1, let a passenger buy an undated ticket and try to confirm a seat the day before he wants to fly. If no seats are available, the passenger must wait. BCal's low fare will be available only at off-peak hours, but no advance booking or minimum duration of stay is required.

For both the British and the Dutch governments, greater freedom to offer discounts fits in with a political commitment to free trade. But there are other motives, industry officials say.

The British government faces constant pressure from small British airlines that want more access

to choice European routes: other European nations lack a powerful body of small, privately owned airlines. In addition, the restrictive nature of the new cheap fares allows the airlines involved to fill empty seats without slashing fares across the board.

In another move toward freer competition, Britain announced last week that it will no longer insist that European airlines consult one another before asking the British government to approve new fares. Nicholas Ridley, the transport secretary, called that practice, enshrined in the European Civil Aviation Conference, "a totally unnecessary controlling regulation."

British officials hope to find a new ally in the Belgian government, which they believe is sympathetic to freer air competition. The British also are seeking a new, even more liberal air accord with the Netherlands.

Elsewhere in Europe, the British face solid opposition from the major nations, particularly France and Italy. The European Community Commission earlier this year proposed minor relaxations of restrictions on air competition, but that effort has been referred to a committee for study.

Meanwhile, European fares on heavily traveled routes remain substantially higher than their counterparts in the United States, where deregulation in the late 1970s created a near free-for-all, huge losses for some airlines and less-frequent service for small cities. For instance, a one-way economy class ticket from Paris to London on a major airline costs nearly \$100. Between New York and Washington, the equivalent can be had for \$60.

Britain's Civil Aviation Authority found in a study last year that fares on major routes from New York to Florida, Washington and Chicago were about 35 percent below comparable normal fares to Europe from London. On many less-traveled U.S. routes, however, there was little or no advantage over comparable European fares.

Such comparisons need to be qualified by noting that cheap charter flights are much more common in Europe. That leaves less scope for scheduled airlines to sell discount tickets to tourists. Another major difference is that almost all major European airlines are state-owned; a government is unlikely to countenance a fare war that shoots down its flag carrier. So, most airline experts say, U.S.-style deregulation is not an option.

Lending to Eastern Europe Picks Up; Study Says Level Is Underestimated

By Carl Gewirtz

International Herald Tribune
PARIS — The years of credit famine in Eastern Europe appear to be definitely over.

The latest borrower to tap the market is the International Investment Bank, the Moscow-based consortium bank owned by all members of Comecon. It is seeking \$100 million and has asked Deutsche Bank's Luxembourg subsidiary to put it together.

While the terms have not yet been officially disclosed, sources say the loan will run for seven years. The grace period, during which only interest will be paid, will total 5 1/2 years. Interest will be set at 1/4 point over the London interbank offered rate.

The terms compare favorably with the \$250-million loan for Vneshtorg, the Soviet Union's foreign trade bank, which after long delay is due to be signed this week. That operation runs for five years, with a four-year grace period, and bears a margin of 1/4 point over Libor.

The 1/4-point increase on the margin that International Investment Bank is to pay appears to be a trade-off for the longer maturity and the longer grace period. Vneshtorg, which started out looking for only \$100 million, initially had been reported to be seeking seven-year money and a five-year grace period but was unwilling to pay the 1/4-point margin bankers insisted was necessary.

At the same time, Hungary is arranging \$650 million in a series of credits aimed at improving its industrial infrastructure to generate a higher level of exports. The World Bank is expected to provide a \$200-million long-term loan, but the biggest portion of the operation is a \$350-million loan from commercial banks to be co-financed with the World Bank, which is expected to take a \$35-million participation.

The \$315 million of the co-financing loan being offered to commercial banks will run for eight years and will carry a grace period of four years. Interest will be set at 1/4 points over Libor or 1/4 point over the prime rate of U.S. banks. No more than one-third of the loan is to be tied to the prime.

Reflecting both the growing acceptability of the World Bank's new co-financing formula and a reassessment of Hungary's credit standing, the maturity and the grace period on the new loan are longer than the six-year life (with a three-year grace period) set on Hungary's first co-financing last year. The margins on the new loan are also lower than the 1 1/4 points over Libor or 1 point over prime set a year ago. Fees are also lower, totaling 1/4 percent versus 1 1/2 percent last year.

Last year, lenders were offered unlimited choices of how much of the loan would be priced over the more expensive prime rate, whereas this time it is limited to a maximum of one-third of the total.

The World Bank's \$35 million of the commercial loan will run for 10 years with an eight-year grace period.

An additional \$100-million equivalent will be supplied by Japanese banks as a yen loan in which the World Bank will take a 13-percent stake. In all, the World Bank will be providing \$248 million of the total financing.

The pickup in lending to Eastern Europe comes after a near steady decline since the end of 1981, when the debt owed to banks in the 15

leading industrialized countries peaked at \$60.7 billion.

While data published by the Bank for International Settlements show that the total at the latest count, the end of 1983, is down to \$48.9 billion, a new joint study by the BIS and the Organization for Economic Cooperation and Development shows that outstanding

loans provided by institutions outside the 15 major industrialized countries, guaranteed credits provided by governments aside from the 20 OECD members included in this report, and official credits provided by the International Monetary Fund and the multilateral lending agencies such as the World Bank.

SYNDICATED LOANS

credit at mid-1983 was at least almost 25 percent higher than previously reported by the BIS, thanks to nonbank trade credits extended by suppliers and guaranteed by Western government export credit agencies.

The new study also shows that an increasing portion of the bank debt is guaranteed by Western governments through their export credit agencies.

The bank debt at the end of 1982 totaled \$57 billion and declined to \$54.6 billion by mid-1983, the period covered by the joint report. Of this total, Western governments were recorded as guaranteeing \$11.6 billion, or 21.2 percent, at the end of 1982 and \$12.4 billion, or 22.6 percent, at mid-1983.

During the same period, nonbank government-guaranteed trade credits eased from \$18.1 billion to \$17.5 billion. But as this slippage was less sharp than the decline in overall bank lending, the portion of bank and nonbank debt guaranteed by Western governments rose to 41.4 percent of the total identified Eastern debt of \$72.1 billion at mid-1983. This compares with Western government guarantees of 39.4 percent of the total of \$75.1 billion at the end of 1982.

A similar picture emerges for all countries.

The portion of bank loans guaranteed by Western governments rose to 11.9 percent at mid-1983 from 10.9 percent six months earlier when the debt crisis had only just begun to emerge.

During this six-month period, nonbank trade credits guaranteed by Western governments also surged, rising 8.2 percent. This compared with a less than 1-percent rise in overall bank lending to \$520.7 billion. As a result, government-guaranteed credits amounted to 29.7 percent of the \$652.3 billion outstanding credit at mid-1983 from 27.9 percent of the \$637.3 billion total at the end of 1982.

This picture of the debt situation, while more complete than reported up to now, is still imperfect.

Debts Reclassified

The Federal Reserve Board issued a statement Friday saying that U.S. banks have been directed to classify certain loans to Venezuela as "substandard," but called the action part of a regular review process, Reuters reported.

The classification by the Fed, the Comptroller of the Currency and the Federal Deposit Insurance Corp., "reflected entirely economic and technical analysis by the normal interagency group of bank examiners," the statement said.

Banking sources say the move as a pro to get Venezuela to bring private sector interest arrears up to date. A buildup in such arrears, estimated by some to total about \$1 billion, has been a major problem in negotiations between Venezuela and its creditor banks.

"It could be a way of putting a little pressure on the country," one banker said. "It's a rich country, they're sitting on a lot of oil," another said.

The "substandard" classification, which is below that of "special mention" but above "doubtful" and "loss," is a regulatory one and not connected with an accounting rule requiring banks to classify loans as "nonaccruing" when interest payments are more than 90 days late, bankers said.

That rule was the focus of attention at the end of the first quarter when there was a risk banks would need to classify loans to Argentina as nonaccruing.

In Caracas, the Venezuelan government said the decision to declare some loans substandard will not affect its negotiations to reschedule about \$15 billion in foreign debts.

Selling Said to Show Lack of Capacity

By Michael Quin

New York Times Service
NEW YORK — The U.S. bond market has endured a bout of panic selling that sent prices plummeting by about 2 1/2 points in less than two hours of disorderly trading.

U.S. CREDIT MARKETS

and briefly raised the yield on Treasury bonds to more than 13.75 percent.

Prices rebounded Friday afternoon to close little changed, but sellers, investors and economists agreed that the roller-coaster ride was a grim reminder that, without higher interest rates, the markets have a limited capacity to absorb new offerings of Treasury securities and simultaneously finance growing economy.

Since mid-January, the combination of rapid economic growth and large Treasury borrowings have

U.S. Consumer Rates

For Week Ended May 13

Prime Rate	5.50 %
1 Year Federal Bonds	16.13 %
Money Market Funds	9.40 %
Dow Jones 7-Day Average	9.15 %
Bank Money Market Accounts	14.17 %
Bank Rate Monitor Index	14.17 %

pushed interest rates up by one to almost two percentage points.

But Reagan administration officials prefer to emphasize the low rate of inflation over the last year, and they have insisted that there is no fundamental reason for interest rates to stay high.

"The calls for a responsible fiscal policy are becoming louder," said Victor Chang, a managing director at Ehrlich-Bober Government Securities. Even if bond prices stabilize after their decline of about 14

points since mid-January, he said, rates may still be higher by the end of the year.

"You have only seen part of the ugly face of fear" now widespread in the capital markets, he added.

Earlier last week, the Treasury auctioned \$16.5 billion of new notes and bonds, the vast majority of which have not yet been placed with investors and are still in the hands of securities dealers and speculators. The latest sign of the growing demand for credit from the business sector was a \$1.4-billion increase in business loans outstanding among large banks during the week of May 2.

"Trading today showed a loss of confidence in the Reagan administration," said Gary Dorsch, credit market analyst at Chicago's Rouse Woodstock Inc. "The message to the White House is that they had better get to work on the deficit."

This announcement appears as a matter of record only.

April, 1984

U.S. \$ 20,000,000

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Medium Term Credit Facility

Arranged by

Kidder, Peabody International
Limited

Funds provided by

Al Saudi Banque
London Branch

Canadian Imperial Bank Group

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Moët-Hennessy

At its meeting of 25 April 1984 the Board of Directors of Moët-Hennessy S.A. approved its financial statements for the year ended 31 December 1983. Net income for the year came to 101,499,000 francs.

It is planned to propose to the Annual General Meeting of Shareholders, to be held on 22 June 1984, to declare a dividend of 20 francs per share. After inclusion of prepaid tax (tax credit of 10 francs) this will represent a global income of 30 francs, up 11.1% on the previous year. However, in the meantime the capital stock had been increased by 12.5% by cash offer and by 1.7% following conversion of bonds into shares.

An interim dividend of 8 francs having already been paid on 6 February 1984, a further dividend of 12 francs (plus tax credit of 6 francs) will be made payable at the beginning of July.

CONSOLIDATED RESULTS OF THE MOËT-HENNESSY GROUP			
	1983	1982	%
Net sales	5,741.0	4,587.8	+25.1
Operating profit	845.7	727.5	+16.2
Net income	401.8	339.0	+18.5
Cash flow	543.6	458.8	+19.8

Operating results, though showing a marked improvement on the previous year, were nevertheless affected by the consequences of years of shortages in the Champagne region, necessitating restrictions on shipments and a material rise in production costs due to high grape prices in the poor harvest years. Furthermore, the Group also incurred the costs of reorganizing Armstrong Nurseries in the U.S.A. during the past year.

Champagne and wines
This division reported sales of 2,639,000,000 francs in 1983, against 2,176,000,000 in 1982, with an operating profit of 426 million francs and net income of 200 million francs.

Cognac and spirits
Cognac division's sales totalled 1,588,000,000 francs, against 1,220,000,000 francs in 1982. Operating profit and net income came to 308 million francs and 156 million francs respectively. The volume of shipments increased 6% in 1983.

Perfumes and beauty products
This division achieved further substantial sales growth of 18.75% to 1,413,000,000 francs.
The division reported an operating profit of 185 million francs and net income of 88 million francs.
It is further worth noting that group interest charges now represent only 4.7% of sales, compared with 5.3% in 1982.

Other lines of business
Armstrong Nurseries reported sales of 100 million francs, less than for the previous year, when it was not consolidated in the financial statements of Moët-Hennessy. This company, which is currently in the throes of reorganization, suffered an operating loss of 39 million francs.

Outlook
Provisional consolidated sales figures for the first quarter, on 31 March, 1984, are up 29%, with all divisions contributing to the increase.

Provided by White Weld Securities, London, Tel.: 623-1277; a Division of Financière Crédit Suisse-First Boston
Prices may vary according to market conditions and other factors.

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Published every Monday, this is a compilation of senior positions published in the INTERNATIONAL HERALD TRIBUNE and other selected publications. Comments concerning this feature can be addressed to Max Ferrero in Paris.

POSITION	SALARY	EMPLOYER	LOCAT.	QUALIFICATIONS	CONTACT	Source
GENERAL MANAGER		Int'l Pharmaceutical Co.	Paris	Self-employed in U.S. & France. Business travel exp., admin. & financial background.	Box 10 2070, International World Village, 93221 Menlo Park, France.	INT. 3-3-84
PERSONNEL DIRECTOR		Financial services group.	London	Very qualified and experienced individual in dealing with a multi staff at all levels.	Paul M. Griffin, Principiastr 965, 1817 H. Amsterdam, Holland	INT. 3-3-84
GENERAL MANAGER		Financial group (Chempolent Bureau).		Qualified in U.S. & Europe. Admin. the other of 1000-2000 people. 20 yrs in U.S. and 10 yrs in Europe as a manager.	Mr. Paul M. Griffin, Chempolent Boulevard, Bureau 62, 1812 L.H. Amsterdam.	INT. 3-3-84
TRADERS	Affiliate	World-wide trading co.	Frankfurt	Self-employed, very qualified and experienced in U.S. & Europe + admin. & finance & administrative exp. 20 yrs.	Box 10 2015, International World Village, 15 Frankfurtstr., D-8000 Frankfurt/L.	INT. 3-3-84
FINANCIAL DIRECTOR	Based on qual. & exp.	Private Investment Group.	Brussels	Very good financial background, personal services record, trading exp. with Int'l financial community.	Ind. B.A., 15-16 Hertie Street, London W1Y 2HL.	INT. 3-3-84
EUROPEAN RETAIL MANAGER	Excellent	Laura Ashby.		30-40 years exp. U.S. & Europe. International exp. in retailing exp. in Int'l retail chain, extensive travel.	Ind. A/1520, str. J.L. de Bea, P/L, Principiastr 194, 1817 H/L Amsterdam, Tel.: 020-226892.	INT. 3-3-84
MANAGING DIRECTOR	Compensate with position	Hospitality industry co.		U.S. citizen, wide exp. of general mgmt.; ability to travel; Exp. Fr.	Ind. 2091, Route P.J. 1, 3 rue des Galeries, 75002 Paris.	INT. 3-3-84

For the Week Ending May 11, 1984

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NEW YORK (AP)—Weekly Over the Counter

Stocks above the line are in the over-the-counter market. Stocks below the line are in the New York Stock Exchange. Prices are for the week ending May 11, 1984. Prices are for the week ending May 11, 1984. Prices are for the week ending May 11, 1984.

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Chicago Exchange Options

For the Week Ending May 11, 1984

Option & price Calls Puts

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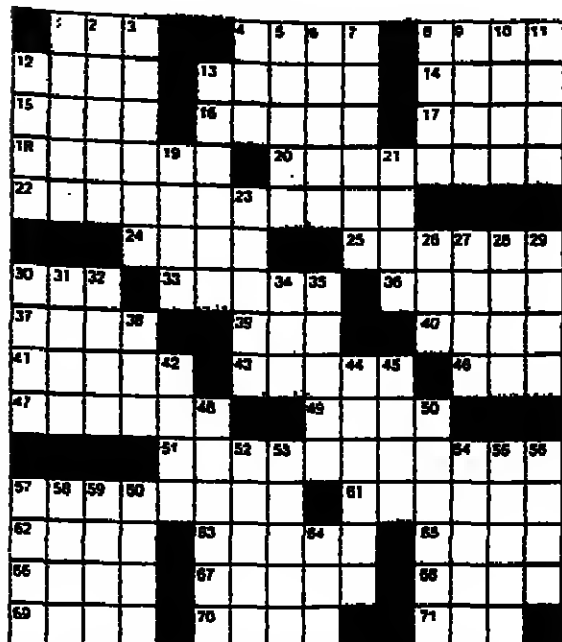
Option & price Calls Puts

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Option & price Calls Puts

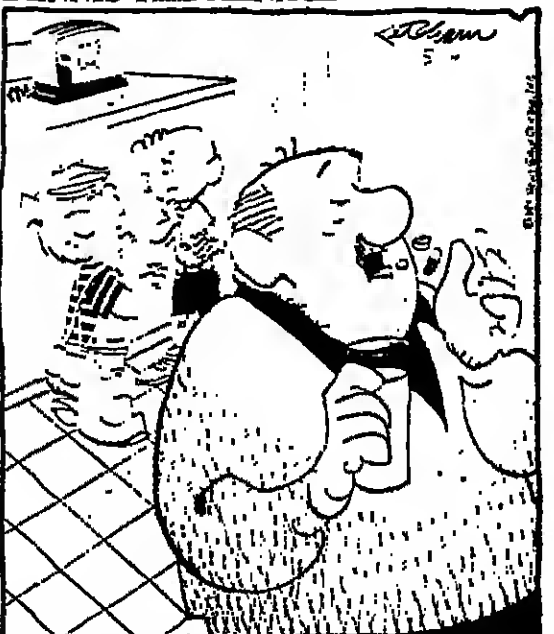
Option & price Calls Puts



- ACROSS**
- 1 Fall behind
 - 2 Broadway hit: 1992
 - 3 Husk of wheat
 - 4 Scotch companion
 - 5 Ancient Greek physician
 - 6 Soft, light fabric
 - 7 Author Hunter
 - 8 Love, in Livorno
 - 9 Of a king
 - 10 Bremen in the Middle Ages, e.g.
 - 11 Plunderers
 - 12 Diamond cover, for short
 - 13 Fan out
 - 14 Collar part
 - 15 Rookery residents
 - 16 State flower of N.M.
 - 17 Surrounded by
 - 18 Red deer's mate
 - 19 Attenuate
 - 20 Kitchen pest
 - 21 Chinese societies
 - 22 Verse form
 - 23 Interwoven series
 - 24 bene
- DOWN**
- 1 Without a care
 - 2 Skydiver's specialty
 - 3 Ancient water
 - 4 Master
 - 5 Flexible leather
 - 6 Unusually
 - 7 It flows into the Wash
 - 8 U.S. philosopher
 - 9 Signals
 - 10 Hammer part
 - 11 Printing measures
 - 12 "Scratch a —, and find a foe"
 - 13 Old saying
 - 14 Booby's cousin
 - 15 Rotating machine part
 - 16 Where eagles go
 - 17 Haute
 - 18 Shows contempt
 - 19 Coalition
 - 20 Italian painter: 1575-1642
 - 21 Dill of the Bible
 - 22 Thrill
 - 23 Abundantly
 - 24 Arab robes
 - 25 Spot
 - 26 Style of painting
 - 27 Furrow
 - 28 Kind of chamber
 - 29 Silicic
 - 30 Cart of stents
 - 31 "Help!" in Dyon
 - 32 Propensity
 - 33 Old card game
 - 34 Medicinal herb
 - 35 Elec. currents
 - 36 Resentment
 - 37 Land of plenty
 - 38 Guy
 - 39 Teacher's tool
 - 40 Draw away, as a limb
 - 41 Escape
 - 42 An obsolescent
 - 43 Zionist underground group
 - 44 Venex
 - 45 May and Memorial
 - 46 Bomb
 - 47 Gaelic
 - 48 Genesis scene
 - 49 Rather

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DENNIS THE MENACE



"MR. WILSON TAKES PILL'S CHASE HIS BLOOD IS HIGH AN' IT PRESSES ON HIM."

JUMBLE

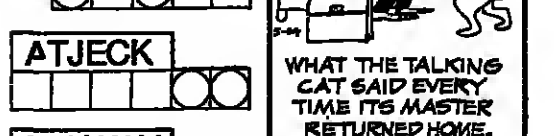
Unscramble these four jumbles. One letter to each square, to form four ordinary words.

WHOSY

MOWNE

ATJECK

SALWAY



WHAT THE TALKING CAT SAID EVERY TIME ITS MASTER RETURNED HOME.

Now arrange the dotted letters to form the answer words, as suggested by the above cartoon.

Answer here: _____ (Answers tomorrow)

Friday's Jumble: CHESSE UNWEO MISERY WALNUT

Answer: She admitted she was forty but she didn't do this—SAY WHEN

WEATHER

EUROPE	HIGH	LOW	ASIA	HIGH	LOW
Algeria	20	16	Beijing	21	15
Amsterdam	18	14	Bombay	28	22
Berlin	18	14	Hankow	28	22
Bombay	28	22	Harbin	28	22
Buenos Aires	18	14	Hong Kong	28	22
Calcutta	28	22	Kobe	28	22
Canton	28	22	Manila	28	22
Cebu	28	22	Medan	28	22
Colon	28	22	Osaka	28	22
Hankow	28	22	Shanghai	28	22
Harbin	28	22	Singapore	28	22
Hong Kong	28	22	Taipei	28	22
Kobe	28	22	Tokyo	28	22
Manila	28	22			
Medan	28	22			
Osaka	28	22			
Shanghai	28	22			
Singapore	28	22			
Taipei	28	22			
Tokyo	28	22			

MIDDLE EAST

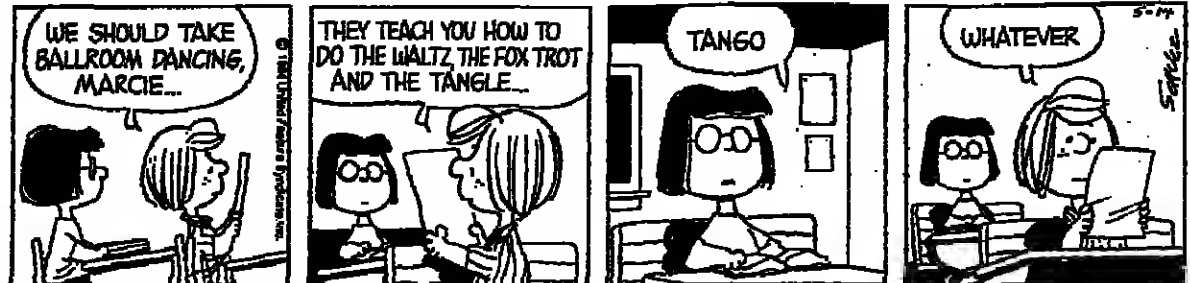
Amman	20	16
Baghdad	20	16
Beirut	20	16
Jerusalem	20	16
Tel Aviv	20	16

OCEANIA

Auckland	14	10
Sydney	14	10

MONDAY'S FORECAST: CHICAGO: Partly cloudy with rain. High 64, low 44. NEW YORK: Partly cloudy with rain. High 64, low 44. LOS ANGELES: Partly cloudy with rain. High 64, low 44. SAN FRANCISCO: Partly cloudy with rain. High 64, low 44. WASHINGTON: Partly cloudy with rain. High 64, low 44.

PEANUTS



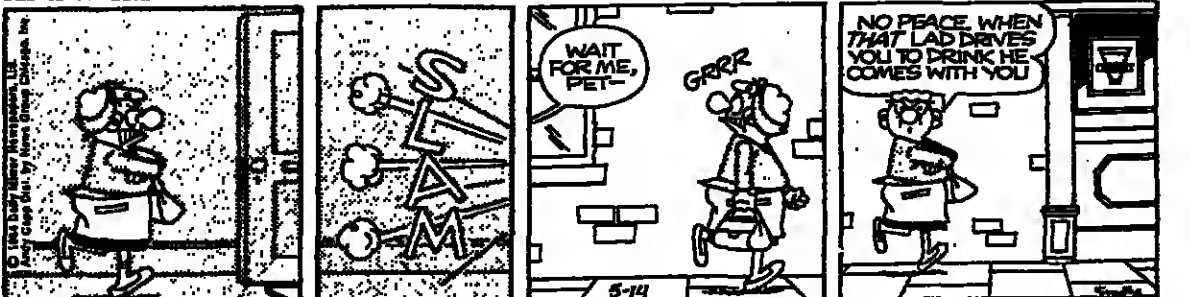
BLONDIE



BEETLE BAILEY



ANDY CAPP



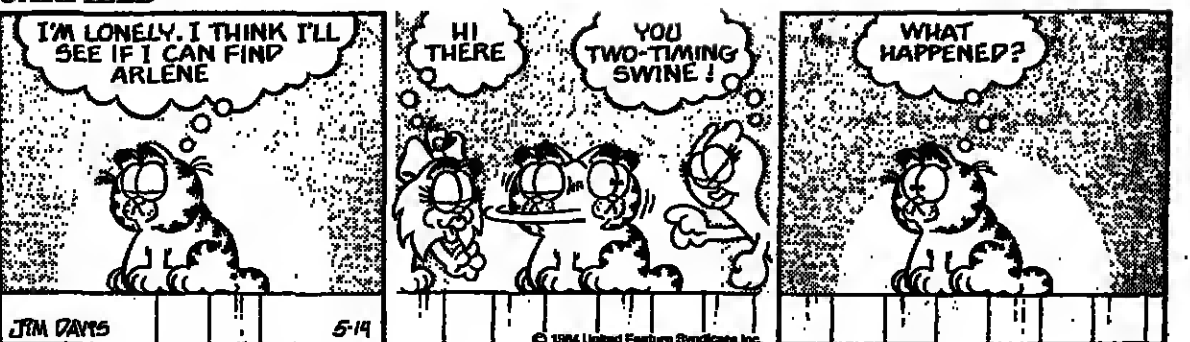
WIZARD of ID



REX MORGAN



GARFIELD



SPORTS BRIEFS

Benoit Wins U.S. Women's Marathon Trial

OLYMPIA, Washington (AP) — Joan Benoit, who underwent arthroscopic surgery on her right knee April 25, breezed to victory here Saturday in the U.S. Olympic women's marathon trial. The fastest women's marathoner in history with a clocking of 2:22:43 at Boston last year, Benoit broke away at the halfway point and finished unchallenged in 2:31:05.

Julie Brown was second in 2:31:42, while Julie Isphording, with a third-place 2:32:27, won the final spot on the U.S. squad at the Los Angeles Games, where the women's marathon will be run for the first time ever.

"It was a very emotional day," said Benoit, 26. "I knew my legs could go at any point. The last six miles were very tough. Cardiovascularly I felt great. But my legs just would not go. I knew at six miles that if the pack came on me I'd be in big trouble. I just couldn't open my stride at all at that point."

Crying at the finish line, Benoit said, "It was just a release of energy. Last weekend I couldn't run, and I almost packed my bags and went home."

Meanwhile, Cathy Schiro, 16 and running in only her second marathon, set a world junior record — for women under 19 — by finishing in 2:34:24. Schiro holds U.S. high school records at 3 miles and 5,000 meters.

McEnroe Beats Lendl, 6-4, 6-2, in N.Y. Final

NEW YORK (AP) — John McEnroe defeated Ivan Lendl, 6-4, 6-2, here Sunday to retain his title in the Tournament of Champions tennis competition. It was McEnroe's seventh tournament victory of 1984 and his 32d consecutive match victory.

In Saturday's semifinals, McEnroe thrashed Jimmy Arias, 6-1, 6-2, and Lendl humiliated Jimmy Connors, 6-0, 6-0. Against Lendl, Connors failed to win a game for the first time in his professional career. He reached deuce only twice and won only 16 points in the 52-minute match.

In Friday's quarterfinals, Lendl had subdued Steve Meister, 7-5, 3-6, 6-1. McEnroe downed Johan Kriek, 4-6, 6-3, 6-2. Connors beat Aaron Krickstein, 3-6, 6-2, 6-1 and Arias dismissed Brad Drewett, 6-2, 6-3.

Stadler, on 64, Leader by 4 in Nelson Golf

IRVING, Texas (UPI) — Craig Stadler shot a 7-under-par 64 Saturday to take a four-stroke lead into the final round of the Byron Nelson Golf Classic. Stadler began the day tied with three others, one stroke back of Dave Barr, whose 73 on Friday had given him a 140 mid-point total. Stadler had a second-round 71, George Archer a 69 and Mike Smith a 67.

Smith's 68 on Saturday left him alone in second at 209. Lee Trevino (a third-round 69), Tom Watson (66) and Mark O'Meara (66) were third at 211. Barr and Archer faded to 213s on respective third rounds of 73 and 72.

For the Record

Charlie Spedding won Sunday's London Marathon in a time of 2:09:56, easily outdistancing fellow Britons Kevin Foster and Denis Fowles. Norwegian Ingrid Kristiansen won the women's division in 2:24:26, the second-fastest women's time ever.

Alamed Saleh of Djibouti was the winner of Saturday's Paris Marathon in 2:11:58, edging Frenchman Jacky Boxberger. (UPI)

Mariners Snap Yankee Streak, 4-3, in 17 Innings

Compiled by Our Staff From Dispatches
NEW YORK — Jack Perconte's one-out 17th-inning fly Friday night delivered Darnell Coles from third base to make the Seattle Mariners 4-3 victors over the New York Yankees, who had gone 16 innings the night before in downing Cleveland. The Mariners ended a Yankee winning streak at four games.

Coles doubled into the left-field corner to open the 17th off Clay Christiansen (0-1) and moved to third on a sacrifice fly by Perconte.

FRIDAY BASEBALL

third on Bob Kearney's sacrifice bunt. After Spike Owen walked, Perconte lofted a fly to shallow center, and Coles beat Dave Winfield's throw to the plate.

Winner Roy Thomas (3-1) worked 4 1/3 innings, giving up home runs to Roy Smalley that tied the score, 3-3, in the 14th after the Mariners had gone ahead in the top of the inning on an RBI double by Al Cowens.

The Yankees lost a chance to win when Toby Harrah failed to score from second in the 15th on Oscar Gamble's double off the wall in right-center. Gamble's drive at first seemed deep enough to be a home run, but hit off the top of the wall. Harrah inexplicably stood on second as the ball landed and was able to advance only to third. After Steve Kemp walked to load the bases, Thomas struck out Don Mattingly and Smalley.

"I should have been half-way," said Harrah afterward. "I screwed up. That's simple."

Mariner centerfielder Phil Bradley, who watched Gamble's shot and fired the ball toward the infield, was pleasantly surprised. "I didn't think we'd have a play," he said. "But I threw it in toward home hoping he fell down or something happened. Something did."

The Yankees, held scoreless since Dave Winfield's first-inning home run, erased a 2-1 deficit in the

BOOKS

DIARIES OF MARIO M. CUOMO: The Campaign for Governor

By Mario M. Cuomo. 484 pp. \$19.95. Random House, 201 East 50th St., New York, N.Y. 10022.

Reviewed by Christopher Lehmann-Haupt

WHAT are the "Diaries of Mario M. Cuomo" like to read if you don't compare them with the competition — by which, of course, I mean the only other book by an elected official from New York to have appeared in the last three months?

The exercise of answering this question is a little like trying not to think about a spotted hippopotamus for the next five minutes. Almost everything about the Cuomo diaries reminds us of Edward L. Koch's "Mayor." Its author happens to have been Cuomo's opponent in the political campaign for the 1982 New York Democratic gubernatorial nomination, to which the diaries are largely devoted to describing.

Each descriptive phrase aroused by Cuomo's book calls to mind its contrast with the competition — philosophical, introspective, self-critical, generous to friends and enemies alike, statesmanlike without being impersonal, visionary and — no, not boring. Not boring at all. It is a rousing political battle that the author comes from so far behind that the faith and perseverance required to keep up the fight seem almost inspirational. (The author devotes relatively little space to what he describes as the anticlimactic campaign against the Republican candidate, Lewis E. Lehman, although he acknowledges that having seen it as a leadout nearly caused him to lose the election.) Even though we know the outcome from the start, the diary entries are detailed and emotionally intense enough to provoke a willing suspension of memory in the reader. We experience the campaign almost as if we hadn't been through it once before.

Solution to Friday's Puzzle

SEAN DITAT MUSE
OLLA ERODE EPIC
HEAR BROADCLOTH
OVERDO LIDO NEO
OENO REOS
SNOWBALL RETINA
TONG TIGET ERROR
ERIA WATER AEON
AMOUR SURE ISSA
MANGER PALETTE
ETUI TALL
ARE LIMS PIAZZA
WIDEAWAKES COAL
OWEN ANISE ENMA
LENS YESES DEYS

Moreover, there are entertaining vignettes to divert us. "I took a nap from an unexpected quarter today," Bill Haddad's daughter, Amanda, has been watching me on television. "That's good — being viewed is all-important. She says I look like a frog — that's not good. When was the last time a frog was elected governor? I used to feel bad when people mistook me for Al D'Amato (U.S. senator from New York); now I'll be grateful for it."

Still, let us act for a while as if spotted hippos were not on our minds. It isn't just the contrast of Mario Cuomo's diary-persona that makes him attractive. Occasional passages like the following draw you into the very center of the man:

"Approaching 50. You will die as you must. Maybe today," he reflects early in the morning of Nov. 22, 1980. "If you believe in nothing, you are not sure you would want not to," he continues. "So you try desperately to believe in 'An eternity of peace that's earned.' But you don't understand eternity and you're afraid you have not earned it in any event. A full and happy life for what's left of it? But what is there that I would want to 'fill' it with? Achievement? Has anything ever been so useless as the momentary acclaim of a world that does not know you, no matter how 'public'?"

Passages like these lend the book a sense of integrity that makes one want to read the man and believe him, even when he's serving up the most potent of his political program — his positions on violent crime, the death penalty, race relations, supply-side economics and the balanced budget, among other issues. (These he hits only glancing blows in the actual diary entries but summarizes more fully in a series of his most successful speeches he collects at the end of the book.)

One actually believes the man, or at least believes that he means what he's writing. This is so extraordinary an experience in a genre where beliefs have come to mean tools or images or masks you put on like eyeliner in the morning, that occasionally I found myself actually reaching for cynicism. Could it all be calculated? But it's a diary, not a memoir or a campaign autobiography. Mario Cuomo wrote it himself during quiet moments he managed to grab in the heat of a difficult campaign. It simply couldn't be contrived.

The man is whole, at least in this book. He gives new meaning to virtues so tried and traditional that one would have thought they had no life left in them. He breathes life into clichés. Either he is for real or the art of political deception has achieved unimpeachable depths of subtlety. One is inclined to trust him, if not always to agree with him, and this makes for unusually relaxing reading.

Christopher Lehmann-Haupt is on the staff of The New York Times.

BRIDGE

By Alan Truscott

ON the diagrammed deal, North should perhaps have opened one no-trump to avoid the impending rebid problem after one spade. As it was, he should have chosen between two no-trumps, a slight overbid, or three spades, a

slight exaggeration of the spade support.

But North-South had an agreement that any four-club bid would be Gerber, and North could not resist the temptation. He should have considered that South's acts were not a major factor in assessing slam prospects.

After most opening leads, this exotic bidding would have backfired. Left to himself, South would no doubt have lost a diamond trick and a heart trick, since the normal heart play is the king followed by the jack and a finesse. This approach would neutralize Q-9-x-x in the West hand.

But West obligingly produced the heart nine. Somebody had probably taught him to lead through strength, but a lead of dummy's long suit is nearly always unwise. Here it solved all South's problems, and he emerged with an over-hand. Perhaps expecting a stronger North hand, he over-

rebid his partner's sign-off and used Blackwood.

North-South thus became one of the very few partnerships in the history of the game to use Gerber and Blackwood on the same hand.

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OUT — Driver Michael Chandler, injured Friday in a crash (above) at the Indianapolis Motor Speedway, has not regained consciousness; his condition is termed "serious but stable." Chandler's Eagle racer slammed into a wall as he practiced for Sunday's start of qualifications for the May 27 Indianapolis 500. He had been clocked at 200.713 miles per hour (323 kph) shortly before the crash.

Eurolingo Spoken Here

You got it. Now, quick, rush into print with the antithesis of *Europemism*. That's how neologicians make it into word history.

ough he speaks very little-
1, he travels to the United
several times a year for
business and pleasure, visit-
spaper offices and driving
the country. Two years
bought France-Amérique.



"I'm no Citizen Kane or Randolph Hearst," he says. "I don't have mines, oil wells, factories. I'm only a man of the press. I'm obliged, condemned to ensure its

Cars are still a passion. He owns a BMW and a Mercedes-Benz. During the week, he lives in a large apartment in suburban

will perpetuate it; that his work will not be as fleeting as his life, but will continue to the end of time. Usually there's nothing to it — nothing, but it's consoling

dated this judgment in its issue, singling out stream-of-consciousness as the worst Western influence on Chinese writers. It "cuts the inherent ties be-

surprises. Recently found in the Xinhua store was "a handbook of current Americanisms" including four-letter words and terms like "drop acid," which means take the

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